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China Report

ECONOMIC AFFAIRS



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1 DECEMBER 1986

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

NATIONAL POLICIES AND ISSUES

Results of Research on Economic Restructuring (Li Lunzu; RENMIN RIBAO, 21 Jul 86)	1
Socialization of Economic Information Urged (Pan Muping; SHIJIE JINGJI DAOBAO, 7 Jul 86)	4
Poll on Public Acceptance of Bankruptcy Law (Sun Yunling; LIAOWANG, No 30, 28 Jul 86)	7
Nation's Price Reforms Reviewed (Li Baoshi; ZHONGGUO JINGJI TIZHI GAIGE, 23 Apr 86)	11
Xue Muqiao on Structural Price Adjustment, Inflation (JIAGE LILUN YU SHIJIAN, No 3, 20 May 86)	17

ECONOMIC MANAGEMENT

Finance Minister on Controlling Group Purchasing (Wang Bingqian; CAIZHENG, No 7, 8 Jul 86)	24
Personnel Management in Shenzhen SEZ Enterprises (Chen Jianian; GUANGDONG SHEHUI KEXUE, No 2, 6 Jun 86)	29

FINANCE AND BANKING

Funds Markets Developed, Circulation Improved (Gao Qinglin; LIAOWANG, No 38, 1986)	36
---	----

INDUSTRY

Lin Hanxiong Report to Building Materials Conference (ZHONGGUO JIANCAI, No 4, 13 Apr 86)	40
---	----

SMALL-SCALE ENTERPRISES

Satisfactory Progress for Small-Scale Enterprises in 1985 (NONGCUN CAIWU KUAIRI, No 7, 1986)	49
---	----

DOMESTIC TRADE

Ma Hong on Horizontal Economic Linkages in Wuhan (Ma Hong; ZHONGGUO JINGJI TIZHI GAIGE, No 7, 23 Jul 86) .	52
Horizontal Economic Linkages End Fragmentation, Isolation (Gai Weisheng; RENMIN RIBAO, 3 Aug 86)	58

FOREIGN TRADE AND INVESTMENT

Anhui's Exports of Machinery, Electronics Promising (Li Li; ANHUI RIBAO, 19 Jul 86)	61
Joint Ventures Proliferate in Quanzhou (Zhongxinshe; GUOJI SHANGBAO, 26 May 86)	62
Fujian's Use of Foreign Capital Reviewed (Wu Guinan; CHING-CHI TAO-PAO, 14 Jul 86)	63
Hebei Urged To Develop Local Exports (Shang Wenxia; HEBEI RIBAO, various dates)	66
Importance of Barter Trade	66
Promoting Export With Import	67
Need To Develop New Products	68
Export Drive by Liaoning Increases Foreign Exchange (Cao Zenghuo; KAI FANG, No 7, 8 Jul 86)	70
Sichuan's Exports of Electro-Mechanical Products Increase (Wang Yongkang; SICHUAN RIBAO, 15 May 86)	74
Tianjin Successful in Attracting Foreign Investment (Liu Rong; TIANJIN RIBAO, 12 Jul 86)	75
Briefs	
Earnings From Carpet Exports	76

SPECIAL ECONOMIC ZONES

Different Stages of Development of SEZs Studied (Zuo Lianchun; GUANGDONG SHEHUI KEJUE, No 1, Mar 86)	77
Shenzhen Economy Shows Improvement in Various Areas (Chen Yong-ping; TA KUNG PAO, 3 Jun 86)	86

TRANSPORTATION

New Phase in China's Highway Construction (Yi Fei; LIAOWANG, 30 Jun 86)	88
--	----

Nanjing Harbor Development Outlined (Shan Rupeng; LIAOWANG, 30 Jun 86)	91
---	----

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

Economic Reform in Soviet Union Analyzed (Lu Nanquan; SHIJIE JINGJI, No 6, 10 Jun 86)	94
--	----

Poland Begins New Phase of Socialist Economic Development (Wen Youren; LIAOWANG, 14 Jul 86)	102
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NATIONAL POLICY AND ISSUES

RESULTS OF RESEARCH ON ECONOMIC RESTRUCTURING

Beijing RENMIN RIBAO in Chinese 21 Jul 86 p 5

[Article by Li Lunzu [2621 0243 4371]: "Seminar Examines Results of Research on Economic Restructuring"]

[Text] To further promote research on the theory of the restructuring of the economic system, the Chinese Society of Economic Restructuring Research recently invited experts and scholars from the country's economic theoretical circle to a seminar to discuss the results of special studies conducted by the society.

On macroeconomic regulation in a socialist economy, some comrades argue that planning does nothing to change the regulated nature of a commodity economy: The law of value still operates as a regulator. The law reflects the most basic relations between social production and social demand and the general laws governing the operation of the economy. For this reason it is also a basic law in the system of socialist economic laws. What is special about the law of value in a socialist commodity economy is this. The compatibility between the general interest and individual interest on the basis of socialist public ownership makes it possible for the law of value to be observed by people voluntarily throughout society.

Many comrades believe that both the commodity economy and the law of value basically boil down to a question of market. The so-called market refers to commodity exchange relations. It is an objective economic environment where the law of value operates. In a socialist society, the market includes the commodity market for means of production and means of consumption, the financial market, and the job market. Only by working through the system of markets made up of these three markets can the law of value fulfill its regulatory function. Take away the market, take away the market factors' connections and operations, and the law of value will lose the prop on which it depends for its existence.

Comrades of this line of thinking further point out that as a planned commodity economy, the socialist commodity economy requires the organic integration of planned leadership and the conscious application of the law of value. And the most appropriate way to achieve such an integration is to indirectly plan, regulate, and manage the development of the economy by the

application of economic leverage. In a socialist system, therefore, macroeconomic regulation goes by the voluntary application of the law of value, bases itself on a unified market system, and uses economic mechanisms as its tools--all in order to fully unleash microeconomic dynamism, on the one hand, and maintain a macroeconomic balance, on the other. Some comrades go further and put forward the idea of a "socialist planned market model," arguing that such a model should be the goal macroeconomic regulation in China strives for. In a socialist planned market model, planning and the market are merged into one; there can be no planning outside the market, nor market beyond the realm of planning. The theoretical framework of the planned market model is this. First, on the microeconomic level, enterprises should be commodity producers. Second, macroeconomic control mechanisms of an indirect kind should be applied. Essentially, state agencies responsible for economic management imitate the regulatory function of the market and apply a range of economic levers as economic parameters in the market. They restrain the destabilizing elements of market mechanism and promote the optional combination of the factors of production and the rational allocation of resources. Third, operational structure is characterized by the coexistence of centralized and decentralized decision-making, the horizontal and vertical flow of information, and the generality and individuality of interest relations. Running through them all, however, is the unifying force of the law of value.

On the system of industrial organizations, some comrades hold that the reform of the system of industrial organizations plays a pivotal role in the restructuring of the overall economy and more analysis should be done in this area, analysis which examines industrial organizations both quantitatively and qualitatively. First, we must clearly understand that socialist enterprises have attributes characteristic of most enterprises as well as features that distinguish them from capitalist enterprises. As relatively independent commodity producers and operators, enterprises have such economic characteristics as independence, profit motive, and commercialization. Second, we must also define clearly the position of enterprises in social economic life. Enterprises are the most basic link in social reproduction and the most direct embodiment of productive forces and production relations. The relations between publicly-owned enterprises and the state are those between managers and owners as well as those between enterprises and government. As for the relations between enterprises, they are economic relations between totally independent commodity producers. Third, another important task of the restructuring of industrial organizations is to determine the size of an enterprise reasonably, depending on such factors as the characteristics of its production technology, conditions for specialized cooperation, and management standard.

On urban circulation centers, a number of comrades suggest that cities have assumed growing importance as circulation centers in the midst of urban economic reform and that circulation has become the preeminent urban function. Circulation here refers to commodity circulation, capital circulation, information circulation, labor circulation, and technical circulation. If we take this urban function seriously and want to make the most of it, we must

build circulation networks and economic zones centered on large and medium-sized cities and perfect the various urban circulation services and facilities. This is essential to fostering a planned commodity economy.

The seminar also examined the basic philosophy behind the overall planning of the restructuring of the urban economic system. As some comrades see it, the goal that China's urban economic reform should aim at is a socialist commodity economy. In such an economy, planning must satisfy the demands of a commodity economy. Planning and the market must be organically integrated, as must the macroeconomy and microeconomy. All economic activities must take place within the framework of market relations, while all market relations must be regulated and controlled by planning. This way our economy will not march under two banners but one, that is, the banner of market relations regulated by planning. Some comrades propose that we consider these basic principles when we plan the future course of economic reform: set long-term goals, adhere to the comprehensive approach, proceed step by step, strictly limit demand, and closely relate what we "discard" to what we "create." In the opinion of comrades at the seminar, the time has come in the restructuring of China's urban economic system for overall planning and coherent, across-the-board changes and that theoretical workers should make valuable suggestions for this daunting piece of reform engineering.

The seminar exchanged views on quantitative research into the comprehensive utilization of economic levers. Aided by economists, a number of comrades who are natural science researchers have in recent years done a series of quantitative economic studies using control theory and systems theory. Such efforts received full endorsement and support from seminar participants, many of whom believe that this kind of interfacing in research methodology between social science and natural science should be encouraged. Other comrades opine that even as we apply new research methodology to economics, we should not ignore the guiding significance of the basic theory of economic science itself.

12581

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NATIONAL POLICY AND ISSUES

SOCIALIZATION OF ECONOMIC INFORMATION URGED

Shanghai SHIJIE JINGJI DAOBAO in Chinese 7 Jul 86 pp 1-2

[Article by Pan Muping [3382 1970 1627]: "China Should Develop an Information Industry Without Delay"]

[Text] Chinese economists have complained that sometimes they have no choice but to look for economic information on China in the foreign press. Otherwise, they cannot function as a "brain trust" advising decision-makers in the central government. After all, one cannot make bricks without straws.

Why has this ridiculous situation come about? This was the first question this reporter asked when he met Director Zhang Sai [1728 1049] of the State Statistical Bureau.

Zhang Sai told the reporter frankly, "To meet the needs of a highly centralized system of economic planning based on a single economic component, economic information for years generally remained in a closed state, as shown in the following ways. It had a very restricted clientele: Essentially its purpose was to serve planning and the leaders at various levels. It was not oriented toward society or enterprises. The information classification system was overly strict; too much information was classified. As a result, most information ended up sitting in the safe. Moreover, the sources of information were too limited and there was little diversity in the methods and forms of information development. The technology of processing information was extremely backward. This situation has seriously impeded the development, exchange, and utilization of information resources and greatly hampered the progress of socialist modernization. To uproot this problem, we must socialize economic information."

Zhang Sai believes that the socialization of economic information is a historically inevitable trend. He said, "Information, energy, and materials have become the technical triumvirate of modern society. This is particularly true in present-day China which is in the historic era of developing a planned commodity economy. Decision-makers need information to formulate plans in tune with realities. Commodity producers need to grasp a large quantity of information so that they can decide what to produce based on market demand. Educational and scientific research agencies need information to serve economic construction better. The masses, too, need information to exercise

oversight over government policies. So do foreign investors and Chinese enterprises. Even more dependent on economic information is the development of horizontal economic links between different regions in the nation. It can be said that without the socialization of economic information, the commodity economy will not be able to grow rapidly."

From this perspective, Zhang Sai believes, we must lose no time in tackling the socialization of economic information conscientiously.

He said, "This is a strategic issue of far-reaching implications for economic construction. We must establish an information industry of a decent size. We must begin to make plans now for a sound industrial structure that includes information development, redevelopment, transmission, and consulting services. We must complete the necessary theoretical and ideological preparations and train the necessary expertise. Certainly, we must also consider drawing up an information industry policy and work out the issue of legal restraint, the diversification of information services, and the development of a private or semi-private information industry."

In the short run, the important thing is to fully develop and use existing information resources. Zhang Sai called for immediate action to solve the following problems:

First, we must effectively strengthen the leading agency in social economic information--the national statistical system. At present the State Statistical Bureau has actually fewer than 700 staff members. What is more, statistical work remains basically manual operations. In contrast, the central statistical agency in the U.S. has a staff of more than 17,800, providing decision-making at the federal level with an adequate scientific basis. The Soviet Union's central statistical bureau has 4,800 workers. With just one hundredth of China's size and population, Hungary employs 1,050 workers in its central statistical bureau. Some Third World nations, such as Thailand and the Philippines, also have more statistical personnel than China. We must accelerate the modernization of statistical information technology so that information development and transmission techniques, printing, communications, and networking are brought up-to-date as soon as possible.

Second, we must give priority to the redevelopment of economic information. The national statistical system has a relatively well-organized social economic surveying network, including 68,000 peasant households in 800 rural counties and 24,000 households in 183 cities. They constitute the source of a vast amount of social economic information, or, in the words of foreign economists, a "large untapped gold mine." This is because raw data in general cannot be used directly, but has to be processed, synthesized, and analyzed before it becomes valuable and useful to economic activities. Yet information redevelopment in China today is far more backward than the collection of raw data.

Third, concrete measures must be taken to broaden the dissemination of economic information, increase the variety of information, open up new channels, and speed up dissemination. We must revise once more the scope, duration, and form of economic information classification in accordance with the needs of developing a planned commodity economy. Macroeconomic control

information and unclassified information should be published regularly. Before it is made available overseas, important information should be announced domestically in a particular format. Scientific research, educational, and cultural units and individuals should publish the results of their research using unclassified information. If information is to be classified temporarily, the period of classification must be specified. When the period expires, it must be declassified. Unclassified information collected in different forms by various agencies should be made available to society or transferred in return for a royalty to individuals or units capable of developing it.

Fourth, we should gradually develop and expand an economic information market to commercialize the bulk of information and improve the utilization rate of economic information. Moreover, we should develop all kinds of information consulting services at all levels to foster the development of an information industry and map out a plan for the socialization and commercialization of economic information with Chinese characteristics.

12581

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NATIONAL POLICY AND ISSUES

POLL ON PUBLIC ACCEPTANCE OF BANKRUPTCY LAW

Beijing LIAOWANG [OUTLOOK] in Chinese No 30, 28 Jul 86 pp 16-17

[Article by Sun Yunling [1327 0061 0407]: "Poll Finds People Ready to Accept Bankruptcy Law"]

[Text] As the restructuring of the economic system gains depth by the day, it is imperative that the "Bankruptcy Law" be implemented. There is no precedent for the institution of a bankruptcy system under socialism. The introduction of the law means that a tiny handful of enterprises which have been operating at heavy losses, yield low economic benefits, and are so much in debt that they cannot pay back their loans will be declared bankrupt and closed so that their assets can be used to repay their creditors. Inevitably there will emerge in society a small number of short-term unemployed. Can society cope with such a major economic change? Will a reform with such wide-ranging repercussions receive public understanding and support? Is society basically prepared psychologically for a bankruptcy system? We asked these questions in a poll, "survey on society's psychological response to the 'Bankruptcy Law,'" conducted in four cities, Changsha, Hefei, Harbin, and Guilin. Over 500 people at three levels were polled, including people who run municipal departments in charge, enterprise leaders, and rank-and-file workers. Survey results show that the time is ripe for China to adopt a bankruptcy law, society is psychologically ready, and a majority of people want the law to be introduced as soon as possible.

How people view the economic situation and how they expect the economy to develop has a major bearing on society's ability to cope with the "Bankruptcy Law." In our survey, we asked five questions related to this aspect.

Question: Over the past 5 years, China's economic situation

- | | |
|-------------------------------------|-------|
| a. has gotten better | 87 % |
| b. has gotten worse | 0.2 % |
| c. has not changed much | 5.2 % |
| d. is sometimes good, sometimes bad | 7.6 % |

Question: As a result of the restructuring of the economic system, overall social economic benefits have

- | | |
|---------------------------|--------|
| a. clearly gone up | 75.7 % |
| b. clearly gone down | 2.1 % |
| c. not changed noticeably | 22.2 % |

Question: The prospects for economic reform in China are

- | | |
|------------------|--------|
| a. bright | 67.6 % |
| b. gloomy | 1.0 % |
| c. unpredictable | 31.4 % |

Question: Given China's present situation, the implementation of the "Bankruptcy Law"

- | | |
|---|--------|
| a. will encounter obstacle after obstacle and is doomed to fail | 21.2 % |
| b. will succeed as conditions are ripe | 3.3 % |
| c. will run into difficulties, but as long as we do the right things, it will succeed in the end. | 56.7 % |
| d. faces uncertain prospects | 18.8 % |

Question: After the promulgation of the "Bankruptcy Law," workers' initiative in money-losing enterprises will

- | | |
|--------------------|--------|
| a. decline sharply | 16.1 % |
| b. rise sharply | 77.9 % |
| c. not change | 6.1 % |

Survey results indicate that the restructuring of the urban economic system now under way is supported and approved by a vast majority of people. Everybody can see the booming social economic life brought about by reform. The masses' comments on and their ability to cope with the effects and consequences of a bankruptcy law are a far cry from what we expected.

To a certain extent, people are psychologically prepared for economic changes during the era of reform. As long as reform vitalizes China and makes the people prosperous, the public is ready to take risks, as demonstrated in their answers to the following questions.

Question: Do you approve of the introduction of the "Bankruptcy Law" as soon as possible?

- | | |
|-------------------|--------|
| a. approve | 67.3 % |
| b. do not approve | 16.4 % |
| c. indifferent | 16.4 % |

Question: A bankruptcy system in China is

- | | |
|----------------------|--------|
| a. highly necessary | 43.7 % |
| b. can be considered | 47.1 % |
| c. not necessary | 9.2 % |

Question: As they are responsible for their own profits and losses, enterprises should have independent economic interests, on the one hand, and assume business risks on their own, on the other. This viewpoint is

- | | |
|--------------|--------|
| a. correct | 96.0 % |
| b. incorrect | 4.0 % |

Question: After an enterprise is declared bankrupt, all its workers will be put on the list of people waiting for jobs, collect bankruptcy relief funds, and stand to lose economically. This is

- | | |
|-----------------|--------|
| a. reasonable | 60.1 % |
| b. unreasonable | 39.9 % |

Although this is the first time the bankruptcy system is introduced in China and people are not familiar with it, the responses above are very encouraging. It shows clearly that the development of the socialist commodity economy has immensely broadened people's vision, enhanced their sense of competition, and inspired among them a spirit of innovation, of reform. Most people think that it is entirely reasonable for a small minority of workers to wait for jobs temporarily, collect bankruptcy relief payments, and put up with economic losses after an enterprise goes bankrupt. This proves that most workers are willing to share the risk of bankruptcy with enterprise leaders.

The poll results are basically consistent with the findings of another, more extensive, survey conducted not long ago by the Chinese Research Society for the Restructuring of the Economic System.

Question: What will you do if your enterprise closes and goes broke?

- | | |
|---|--------|
| a. go and ask the leadership to solve the problem | 10.0 % |
| b. go find another job on my own | 51.8 % |
| c. set up an individual household | 35.0 % |
| d. can do nothing other than wait for government relief | 3.0 % |

Question: All the workers of a bankrupt enterprise collect bankruptcy relief funds during their period of unemployment. This practice

- | | |
|--------------------------|--------|
| a. is feasible | 65.2 % |
| b. not feasible | 5.7 % |
| c. should try other ways | 29.1 % |

All the survey results above point up one point, namely that as reform gains in depth, the idea of "feeding off the big rice pot" has gradually faded from public consciousness and people are able to adapt to competition and risk-taking, up to a point. Of course, since the price system has not become totally sound, the labor and employment system remains incompatible with it in many ways. Therefore we cannot say that every external economic condition is in place for the implementation of the bankruptcy law today. But this is really a question of relativity. After enterprises became autonomous in management and operations, they cannot hold external conditions responsible for the way they are run. While the irrationality of the price system certainly has a considerable impact on inter-sector competition, enterprises within a sector basically compete on equal terms. Even in a capitalist system, it is necessary for the government to intervene in economic activities

and the price system is not rational at all times. Still enterprises in a capitalist system are totally responsible for the consequences of their operations. Hence we cannot suggest that the "Bankruptcy Law" should not be implemented just because external economic conditions are not fully ripe. As a matter of fact, we cannot simply sit around and wait for that perfect external economic environment. On the contrary, the promulgation of the law is itself an economic mechanism that will help untangle economic relations, promote related reform, and pave the way for its own implementation.

In a number of respects, social psychology still does not favor the implementation of the law. A considerable number of people are worried about the consequences of such a move. Their worry and anxiety are both normal and understandable. How successfully society copes has a lot to do with how well-prepared psychologically people are for economic changes. If a change is familiar or expected, then society can hope better than if the change is novel or sudden. As people do not understand the law very well and lack adequate psychological preparation, it is reasonable that they are worried and anxious. It is only through publicity, explanation, and discussion that public understanding of the law can be raised. And it is only through the practice of economic reform can society's ability to cope be enhanced.

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NATIONAL POLICY AND ISSUES

NATION'S PRICE REFORMS REVIEWED

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese 23 Apr 86 pp 22-25

[Article by Li Baoshi [2621 1405 1395]: "A Retrospective on China's Price Reforms"]

[Text] Substantial development of China's economy has taken place since the 3d Plenum of the 11th Party Central Committee, and a rather good beginning has been made in reform of the price system as well.

Rural Price Reforms Prior to 1985

Differential increases in procurement prices paid for agricultural and sideline products gradually made proportional relationships among agricultural prices and between industrial manufactures and agricultural products more equitable. Decisions taken by the 3d Plenum of the 11th Party Central Committee in 1979 tremendously increased procurement prices for 18 major agricultural and sideline products including grain, cotton, oil-bearing crops, sugar crops, livestock products, aquatic products and forest products, raising prices by an average 22 percent and raising the procurement price index for agricultural products by 22.13 percent over 1978. Subsequent to 1980, there were consecutive increases in the prices paid for some fairly secondary agricultural and sideline products. At the same time, prices were further increased for major individual agricultural products for which demand substantially exceeded supply. A differential price increase policy was instituted for different agricultural and sideline products, thereby bringing the price ratios among agricultural products fairly close to the market supply and demand situation and changes in production costs. Comparison of 1984 with 1978 shows an overall 53.7 percent increase in procurement prices for agricultural and sideline products, while the overall retail price level for industrial manufactures in rural areas rose only 7.8 percent. This narrowed the exchange ratio differential between industrial and agricultural products by 42.57 percent. The inequitable comparative price problems that had accumulated over the years between industrial and agricultural products were solved to a certain extent. Peasant enthusiasm for production rose substantially; productivity was emancipated; and the amount of commodities supplied to society increased tremendously. Comparison of 1984 with 1978 shows a 1.31 fold increase in the amount of commodity grain, a 1.85 percent in

the amount of oil-bearing crops, a 39.34 percent increase in live hogs, a 1.82 fold increase in slaughter cattle, a 1.64 fold increase in slaughter sheep, a 2.42 fold increase in poultry, a 1.67 fold increase in fresh eggs, and a 14.84 percent increase in aquatic products. Peasant earnings rose markedly and living standards improved greatly. In 1984, per capita income averaged 355 yuan, 2.65 times more than the 134 yuan of 1978 (or 2.3 times more after adjustment of prices for inflation). To induce the peasant to produce high quality products and thereby make comparative prices for products even more equitable, in 1983 the procurement price set for oil-bearing crops was changed to an "inverse 4:6" ratio [whereby the purchase price was calculated according to 40 percent of the state purchase price and 60 percent of the excess purchase price], and the excess purchase price paid for flue-cured floated downward 20 percent. The price set for cotton in Shandong Province was changed to an "inverse 3:7" ratio, and in Hubei province the price set for cotton was changed to a "straight 4:6" ratio. In 1984, the 5 percent premium price subsidy for north China cotton was abolished and in some provinces and autonomous regions the procurement price for soybeans fell 15 percent. These reforms play a fairly good role in the exchange and transfer of goods and in reducing inequitable subsidies.

A substantial reform of the agricultural products price control system liberalized buying and selling policies. With reform of the organization of agricultural production system, the planning system, and the commodity circulation system in the wake of the 3d Plenum of the 11th Party Central Committee, the scope and proportion of state uniform setting of prices has gradually diminished, and control over Category III agricultural and sideline product prices has been liberalized. This has formed a basis for institution of "twin tier prices" for major agricultural products such as grain, cotton, oil-bearing crops and live hogs, meaning that once state procurement plans have been fulfilled, producers and dealers may buy and sell at negotiated prices. In 1983, prices for numerous major agricultural products including tea, cattle, sheep and goats, eggs and aquatic products were changed from state set uniform prices to negotiated prices. Since 1985, products such as grain, cotton, oil-bearing crops and live hogs, which had formerly been subject to centralized procurement and assigned procurement, have been purchased under contract or at negotiated prices. The number of agricultural and sideline products for which State Council units concerned control prices has been reduced from 113 to 25 for a 77.88 percent decline. Uniformly set state prices apply to approximately 40 percent of all prices for agricultural and sideline products. For other secondary agricultural and sideline products or products not covered by contract procurement, guided negotiated prices and free prices apply. This allows producers and dealers a very large amount of self-determination in the setting of prices, making it possible to reflect market changes at once. In this sense prices play an active role in development of commodity production, in enlivening the circulation of commodities and in regulating supply and demand. Following the abolition of uniformly set prices for perishable and live products, in particular, a new situation came about of an increase in varieties, higher quality, increase in amounts sent to market, an evening out of supplies between peak and slack seasons, and a reduction in losses and waste.

To improve the situation whereby supply of the agricultural means of

production had long been unable to meet demand in terms of either quantity or quality, with increase in procurement prices for agricultural and sideline products that substantially increased peasant earnings, low price policies were gradually changed and prices of the agricultural means of production were raised in a planned way. During 1983 and 1984, chemical fertilizer, pesticide and diesel fuel prices were raised in varying amounts, and prices for some farm machinery as well as small farm implements were readjusted. This changes reflected more closely the actual supply and demand situation and production costs.

Urban Price Reforms Prior to 1985

Simultaneous with major efforts to reform rural prices were step-by-step readjustments of inequitable price ratios between industrial and agricultural goods. With regard to the means of production, prices were raised for coal, minerals, metals, construction materials, sodium carbonate, alum and plate glass, as well as prices for rail and water transportation. At the same time, prices for some electronic equipment and machinery were lowered, thereby bringing about a definite improvement in the inequitable price ratios between the products of processing industries and energy and raw and processed materials. In the realm of industrial manufactures used in daily life, in early 1983 the price of chemical fiber knitgoods was substantially lowered, the price falling by an average 29 percent. At the same time, the price of pure cotton textiles rose by 20 percent for a narrowing from 2.7:1 to 1.5:1 of the price ratio between blended polyester and cotton cloth and cotton cloth. This caused sales volume for blended chemical fiber and cotton cloth to increase 43 percent during the same year and reversed the situation of blended chemical fiber and cotton cloth accumulating in inventory and slack sales. This not only improved the selection of clothing available to the people, but also changed the stagnant situation in production and gave impetus to the production of chemical fiber textiles. Simultaneous with readjustment of the price of textile manufactures was a lowering of the price of some industrial manufactures used in daily life. For example, prices for Chinese produced watches, alarm clocks, liberation shoes, photographic film, color television sets and electric fans declined by an average 7.89 to 22.11 percent. In addition, appropriate readjustments were made in prices for brand name cigarettes and alcoholic beverages. In the non-staple food realm, increase in procurement prices for 18 agricultural and sideline products was used as a springboard for commensurate increases in the sale prices of eight non-staple foods including meat, poultry, eggs, milk and aquatic products. The increased expenditures made by the state for procurement were compensated by price increases. As a result of the foregoing reform measures, commodity prices more closely approximated changes in the market supply and demand situation. The reforms also played a definitely positive role in getting enterprises to shift to the production of commodities in short supply, in ending the waste of commodities in short supply, and in enlivening the economy, smoothing the way for circulation of commodities and expanding exchanges of commodities between cities and the countryside.

Reform of the urban price control system also proceeds as it is being investigated. This is manifested largely in the gradual reduction of state uniformly set prices and an increase in the kinds of products for which

enterprises could set prices. Recent rough calculations made by the Ministry of Commerce show prices for 85 different industrial manufactures used in daily life as having been uniformly set by the state prior to 1983. This was approximately 75 percent of the total kinds of industrial manufactures sold. This has since been reduced to 37 items in a 56.47 percent decline. In addition, enterprises now set prices for several hundred kinds of industrial manufactures used in daily life and for most repair services. Following liberalization of prices on small Category III commodities used in daily life and the setting of prices through consultation by enterprises, everywhere markets in small commodities burgeoned and prices were liberalized on an increasing number of goods. Today these goods account for 24.4 percent of sales volume. Approximately 45 percent of all goods sold carry either locally set or floating prices. Following readjustment of the price control system for industrial manufactures used in daily life, production and business activity came alive in a large number of small enterprises. Output of numerous consumer goods closely linked to the people's daily lives increased; colors, styles and selection increased, and both quality of merchandise and quality of service improved in varying degrees to the benefit of the public. Prices for most heavy industrial goods continue to be set by the state or allowed to float within prescribed limits, and a substantial portion of sales of such goods is at prescribed prices. For example, 91.6 percent of all products of the state-owned iron and steel industry are sold at uniformly set prices. Coal, exclusive of amounts mined in excess of plan, is 99.7 percent centrally allocated; petroleum is 94.4 percent centrally allocated. Until such time as comprehensive readjustments of prices are made, prices for these important means of production will be maintained at prices set by the state for products within plan. For products produced in excess of plan, enterprises are allowed to make sales at prices that are higher or lower than state prescribed prices. This both encourages increased output of means of production in short supply, cuts down on waste in the process of consumption, and partly moderates inequitable prices.

1985 Price System Reforms

Readjustment of procurement and marketing policies and of price policies was the central theme of 1985 price reforms. Readjustments were made principally in the following regards:

Because assigned procurement quotas were no longer handed down to peasants, the state no longer uniformly set specific prices for live hog procurement or for pork sales. For many years the state had followed a live hog assigned procurement and uniformly set price system. Despite major reforms in the rural economic system in recent years, no commensurate changes were made in live hog assigned procurement policies, and this hurt peasant enthusiasm for hog raising. Once uniformly set prices had been abolished, and guideline prices were arrived at for a given area and for a certain period of time by pricing units at all levels in consultation with commercial units on the basis of pricing policies and the supply and demand situation, peasants became able to choose marketing channels.

For places that had yet to liberalize prices for perishable and live commodities such as beef, mutton, goat, ocean fish and poultry eggs, the

gradual liberalization of prices for other perishable and live commodities necessitated the suiting of general methods to local conditions to select the time for the liberalizing of prices of selected commodities. For vegetables, there was an orderly and prudent liberalization of prices first in the south and then in the north, first in small cities and later in large cities, and first for delicacies and later for staples.

Effective 1 April 1985, centralized procurement of grain and edible oil was abolished in a change to procurement on the basis of contracts. Simultaneously, purchase and sale prices for grain and oil were readjusted. For example, in the procurement on contract of wheat, paddy and corn, and of soybeans in major producing areas, price was figured at an "inverse 3:7" ratio. Other grains could be bought and sold freely. For grain repurchased from the state by peasants in rural villages and for various kinds of subsidy grain, seed grain, disaster relief grain and other grain used, sale prices were brought into line with procurement price. At the same time, award sales of grain for procurement of agricultural and sideline products were abolished. Grain rations for city and town residents and grain used by food, beverage, pastry, non-staple food and alcoholic beverage industries, as well as for livestock feed continued to be supplied at uniform sale prices. Negotiated prices were gradually phased in for the supply of grain used in industry. In addition, procurement of edible fats and oils and oil-bearing crops were liberalized by individual areas for individual varieties. Not only was there no change in rapeseed procurement policies, but procurement by contract was also instituted for other oil-bearing crops on the basis of local circumstances. That portion of cottonseeds to be purchased under contract was figured in terms of a "straight 4:6" ratio. Portions not covered for purchase under contracts could be freely bought and sold by the peasants. This brought rural supply of fats and oils and oil-bearing crops in line with procurement prices, while supplies to city and town residents continued to be made available at list prices.

To ease pressures on railroad transportation, short haul passenger and freight transportation rates were readjusted. For example, the price of a hard seat passenger ticket for travel within 100 kilometers was increased 36.75 percent, and the price of a soft seat passenger ticket was increased 36.8 percent. To prevent an inversion in passenger ticket prices for long distances, ticket prices for travel 101 to 160 kilometers were suitably adjusted. Monthly (or seasonal) ticket prices for travel on suburban rail lines were increased 50 percent (student monthly ticket prices remaining unchanged). Freight transportation prices were figured in terms of the regular hauling of freight within a distance of 200 kilometers, a surcharge of 4 yuan per ton being collected in addition. For less-than-carload freight, an additional charge of 4 fen per 10 kilograms was collected. For 5-ton containerized cargo, an additional 12 yuan per container was collected. For 1 ton containers a surcharge of 4 yuan was collected. For light weight packages and packages traveling short distances, surcharges comparable to those for less-than-carload freight of the same kind were levied.

Area price differentials for centrally allocated coal as well as price differentials for different kinds and different qualities of coal were increased. The number of provinces having area price differentials was

increased from four provinces to 14 provinces, autonomous regions and municipalities under direct central government jurisdiction. Price differentials were increased from the former 5 to 10 percent to between 10 and 20 percent. At the same time price ratios were readjusted for 17 different kinds of coal including clean coal, lump coal and powdered coal. In addition price ratios were also adjusted for coking coal, metabituminous coal, lean coal and lignite. Following readjustment, area price differentials increased an average 2.87 yuan per ton; comparative prices for different kinds of coal rose by an average 0.87 yuan per ton of coal, and comparative prices for different grades of coal rose an average 0.65 yuan per ton for an average total increase of 4.39 yuan.

As a result of the foregoing reform measures, live hog procurement prices for the country as a whole rose an average 33.87 percent, and the average sale price for pork nationally rose from 1.01 yuan to 1.38 yuan for a 36.63 percent rise. In area terms, prices were higher in marketing areas than in producing areas and higher in large cities than in medium size or small cities, the price of lean pork in large cities nearly doubling. This resulted in equitable area price differentials and quality differentials. In addition, it stirred peasant enthusiasm for raising hogs. Comparison of the first half of 1985 with the same period during the previous year shows a 7.1 percent rise in the number of hogs in inventory and a 6.7 percent increase in the slaughter rate, with an approximately 20 percent increase in major producing areas. Following liberalization of prices for perishable and live commodities, price levels also rose. Prices of vegetables, in particular, rose substantially. From January through September 1985, retail prices for fresh vegetables rose 32.7 percent nationwide. This included a 55.1 percent rise in September. Nevertheless, the selection increased; quality rose; the edible rate increased; losses and waste declined and differences in availability between slack and peak seasons narrowed. Rise in railroad short haul passenger and freight rates reduced pressures on railroad transportation by diverting traffic to highways and played a very fine role in railroads making better use of their advantages. Expansion of area price differentials for coal, and of price differentials for kinds and quality of coal was extremely helpful in bringing about the flow of coal in a rational direction, in saving motive power, in improving coal quality and in increasing coal output.

Viewed overall, the price reforms of the past several years have been definitely effective. Nevertheless, problems of this and that kind continue to exist in varying degrees requiring further study so that price reforms and reforms in other fields are fitted together as a whole to give impetus to thorough reform of the whole economic system.

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NATIONAL POLICY AND ISSUES

XUE MUQIAO ON STRUCTURAL PRICE ADJUSTMENT, INFLATION

Beijing JIAGE LILUN YU SHIJIAN [PRICE: THEORY AND PRACTICE] in Chinese No 3, 20 May 86 pp 3-6

[Article by Xue Muqiao [5641 2550 0294]: "Difference between Structural Price Adjustment and Inflation Analyzed"]

[Text] Some newspapers recently often make the point that price reform today essentially means structural price adjustments. My article "On Prices" which appeared in XIAOFEIZHE BAO, makes a similar point and suggests that as long as there is no inflation, across-the-board price increases will not occur. Many comrades ask me to define structural price adjustment, inflation, and across-the-board price increases. Let me now express some personal views on these matters. Comrades are welcome to point out my errors.

Prices are value in currency form. They are the ratio between the value embodied by commodities and the value represented by unit currency. The value embodied by commodities (socially necessary labor) or its converted form, product price (costs plus average profit), changes constantly. Generally speaking, the production of agricultural and mineral products is constrained by nature and their costs usually increase relative to those of other products, while costs of processed industrial products often decline. Therefore, the prices of commodities are in a perpetual state of flux. Some prices increase while others decrease. Provided the value represented by the currency remains unchanged, the increases and decreases normally offset one another and the general price level remains largely stable. This kind of price changes is a structural adjustment that occurs under ordinary circumstances. It differs slightly from the structural adjustment we are concerned with today.

Another factor deciding prices is the value represented by the currency. When metal was the legal tender, the value represented by the currency depended on the value of the legal gold content in the currency. (In the past, when China followed the silver standard, the value of one yuan was equivalent to the value of 7 qian and 2 fen of silver.) Now that metal has been replaced by paper money, the value of currency is determined by the quantity of money in circulation, which should be equal to the market's demand for currency. The latter, in turn, is determined by the amount of commodities in circulation in the market. If the amount of commodities in the market doubles due to

economic expansion, the money supply should double correspondingly, other things being equal. In this situation, the overall price level remains unchanged. If the amount of commodities in the market does not change while the money supply doubles, then prices will increase 100 percent. This phenomenon is called inflation. After prices double, the amount of goods in the market calculated in the new prices will increase 100 percent, thus regaining its balance with the money supply. During the war of liberation, because of the colossal costs of the war, China's revenues fell short of expenditures, and the government had no choice but to issue massive amounts of renminbi. The result was an endless price spiral. It was then that we stumbled upon the law that the money supply and prices rise at the same pace. Only after we won the war in March 1953 and balanced our budget did we manage to check the money supply explosion and stabilize prices which had been soaring for more than 10 years. Henceforth we have made money supply control the cornerstone of price stabilization.

Large budgetary deficits occurred during the 3 "Great Leap Forward" years from 1958 through 1960. The money supply expanded 140 percent, making it impossible for prices to remain stable. To ensure that people's daily needs were met amid declining agricultural and industrial output and falling living standards, the government decided to freeze the prices of 18 most essential consumer goods, ration supplies, and cover any losses to the commercial sector with financial subsidies. Since there were not enough rationed goods to satisfy daily public needs, country fair trade was introduced in the cities where peasants were allowed to sell their products at negotiated prices. A surge of surplus currency flowed into country fair trade, pushing up prices several times. (Grain cost about 1 yuan per jin; pork, 5 yuan per jin; eggs, 0.5 yuan apiece.) The government then cut back on spending and sold several high-priced commodities to withdraw money from circulation. Within 3 years the money supply dropped from 12.5 billion yuan to 8 billion yuan. At the same time, production rebounded and country fair trade prices fell. Even high-priced items were again traded at lower prices. That round of price stabilization was effected by two moves: first, withdrawing money from circulation; second, limiting the supply of the 18 categories of essential consumer goods. (Every urban resident was limited to 2 liang of pork per month and 8 chi of cotton cloth per year. Rural residents were allowed only 3 chi of cotton cloth per person.) Although prices were basically stabilized, living standards had dropped sharply. While that was the only option available at the time, the result was retarded agricultural growth (affecting such non-staple foodstuffs as meat, fish, poultry, and eggs) and a prolonged failure to improve living standards significantly.

Beginning in 1979, China raised the prices of agricultural products by wide margins. In the case of grains and edible oils, only procurement prices were increased, not selling prices. Thus the two sets of prices became divorced from each other and the difference was made up by state subsidies. Today such subsidies have topped 20 billion yuan and constitute a heavy burden on the treasury. The selling prices of 8 categories of non-staple foodstuffs were increased, with the additional income thus generated all going to supplement workers' wages (5 yuan per person) so that people did not suffer a drop in living standard because they must now pay more for non-staple foodstuffs. As a result of price increases, production grew rapidly, market supplies

increased, and living standard improved noticeably. In the next 5 years, grain prices inched up in the wake of rising output brought about by the institution of an over-production incentive system. Meanwhile, such non-staples as meat and poultry, the production of which consumes grain, were relatively underpriced. The downward production trend in these categories prompted the government to increase the prices of non-staple foodstuffs again in 1985. In recent years, the prices of non-staple foodstuffs in many small and medium-sized cities have been deregulated, thus precluding the need for extensive price adjustments and the possibility of nationwide price increases. Accordingly, price controls on non-staple foodstuffs in large cities were also gradually eased. Since prices increase by different margins in different cities, the localities have been left to determine the rates of subsidies to make sure that the public is not hurt by price increases. As a result of higher prices, non-staple foodstuff production is expanding apace, which will mean continuous improvement in living standards. Needless to say, as people improved their diet, there came a point when their extra expenditures thus incurred exceeded allowances from the government. Hence the heavy criticisms price increases have come under. Some comrades have even demanded a return to the old ways of price stabilization and rationing. But freezing prices and limiting supply may very well cause production to stagnate and even decline. Living standards will then be worse off than they are now. Clearly a return to the past is not advisable. Apart from the prices of non-staple foodstuffs and subsidies, wages and bonuses have also gone up rapidly in recent years, so that while people do eat better and dress better these days, they still end up with more cash in hand or more deposits in the bank. On the whole, living standard has risen significantly instead of dropping.

The prices of non-staples were artificially depressed in the past, which interfered with production growth. That was why the prices of non-staple foodstuffs were raised in 1979 and 1985 in an attempt to end underpricing, which had been a disincentive, and let prices find their own reasonable level. As long as there is no inflation, prices in general will not go up. That is why we also regard this as structural price adjustment. Certainly if non-staple foodstuffs become more expensive at a time when the prices of other commodities remain unchanged, the overall price level will still edge up marginally. This is slightly different from the structural adjustment mentioned above in which some prices rise while others fall.

Much of the price increases in 1985 was due to structural adjustment. Be that as it may, we cannot ignore the definite amount of inflation that existed. In the last quarter of 1984, loans and wages (primarily bonuses) got out of control, and there was too much money in circulation. Expanding 49.5 percent between late 1983 and late 1984, the money supply was bloated and threatened price stability in 1985. In 1984, the gross value of industrial and agricultural output, national income, and the total volume of social commodity retail sales rose 15, 13.9, and 18.5 percent, respectively, all far below the growth in money supply. It should be pointed out that the substantial increase in the money supply in the fourth quarter was partly accounted for by an increase in procurement funds made necessary by a bumper harvest. This helped stabilize market prices. But that apart, too many capital development loans were made too fast, thus further exacerbating the already severe shortage of means of production. The excesses of wage (primarily bonus) hikes

too turned commodity availability into scarcity, which did nothing to help stabilize prices in the market.

At present the supply of means of production in China is still subject to centralized planning. Many raw materials (including energy) are underpriced: Their prices were not raised in 1985 for fear that such a move would have too unsettling an effect. To ensure supply, however, the government did permit their purchase and sale outside the state plan at negotiated prices, which touched off steep rises in the negotiated prices of steel, timber, cement, etc. The sole exception was coal. After the negotiated purchase and sale of coal was instituted earlier, the output of small coal mines shot up. Negotiated coal prices soared before 1983, began to drop in 1984, and were mostly stable in 1985. Nevertheless they are still 100 to 200 percent higher than official prices. In 1985, negotiated prices for construction steel were about 50 to 60 percent higher than in 1984, and exceeded official prices by about 200 percent. The negotiated prices of timber, cement, and other raw materials too went up noticeably. Meanwhile, negotiated purchase and sale have come to account for a markedly bigger share of the overall supply of means of production. Since the State Statistical Bureau does not keep a price index for means of production, it is hard to estimate the extent to which such prices have risen. Raising the prices of means of production not only affects capital construction, but also indirectly impacts the production costs of a variety of daily industrial products. The government has demanded that enterprises absorb the increases by economizing on energy and making other savings. But some enterprises have found it impossible to do so, which means that certain daily industrial products will become more expensive. Since means of production are mostly used in infrastructural projects, demand for such materials will weaken and their negotiated prices will drop if only we trim the scale of infrastructural development.

The prices of consumer goods rose in 1985 mainly because the government moved to systematically deregulate the prices of non-staple foodstuffs. Non-staple prices increased at different rates in different places. In small and medium-sized cities where price control was relaxed somewhat earlier, the increases tended to be smaller than those in large cities new to price decontrol and other medium-sized cities. The average increase ranged from 20 to 30 percent. Price increases varied from commodity to commodity as well as from place to place. In the case of eggs, which had basically been removed from control earlier, the increase was marginal. Lean pork, on the other hand, has become much more expensive. But it was the prices of fresh fish which rose most sharply, although they are much more readily available now than in the past when they were rarities. In Guangzhou, which embarked on price decontrol relatively early, the prices of fresh fish went up from almost 2 yuan to more than 3 yuan in 1983. As supply increased in 1984, the price retreated to a little over 2 yuan and often dropped below 2 yuan in the evening when the market closed. More or less the same situation obtained in 1985. After price control was eased, there have been very many more varieties of vegetables on the market than before, but prices fluctuated sharply, sometimes exceeding the list price by 200 to 300 percent, sometimes falling below it in peak season. In Beijing, vegetable prices rose by an average 50 percent in the first 3 quarters. In the fourth quarter, the government put on the market a large quantity of Chinese cabbage at 1983 prices. This, coupled with other

measures, did much to stabilize prices. To avoid wild swings in vegetable prices, state-owned vegetable stores should regulate the market and guide vegetable growers and sellers in evening out vegetable supplies through all four seasons in order to eliminate sudden gluts and shortages. It will probably take several years before vegetable growers and sellers discover the law of supply and demand. Until then the need remains for state-owned vegetable stores to step up regulation.

For years in the past China followed a suppressive low-price policy with regard to non-staple foodstuffs, seeking to stabilize prices through rationing and subsidies. This policy constituted a severe drain on the coffers of the state. Worse, it was a disincentive to peasants to increase production. The result was that non-staple supply languished at a low level for a long time. To enable the people to graduate to a relatively comfortable standard of living and eat more nutritious meals instead of just being able to satisfy basic needs, we must lift price control, abolish depressed prices with their inhibitive effect on production, and let prices rise to more reasonable levels. As production rises, living standards will also edge up. Many comrades are worried that once deregulated, the prices of non-staple foodstuffs will shoot up in 1986 at the same pace as last year. It seems that this scenario may be avoided. As long as we curb excessive growth in consumption funds (mainly wages and bonuses), the prices of non-staple foodstuffs will remain stable in 1986 amid rising supplies. We call this structural price adjustment which evidently differs from inflation, across-the-board price increases, and price spiral.

As mentioned above, we lost control on several fronts--loans, wages, bonuses, money supply--beginning in the fourth quarter of 1984. In this situation, some price hikes of an inflationary nature were inevitable. Because the state had at its disposal vast quantities of materials essential to daily living--grain (which can also be converted into meat, fish, poultry, eggs, and other non-staples), edible oils, and fabrics, market supply was basically normal in 1985 and no panic buying occurred. Strictly controlled official prices by and large stayed stable, while prices of small articles outside state control went up slightly. Although the government demanded that retail price increases nationwide, including those in rural areas, be limited to about 9 percent in 1985, figures from the State Statistical Bureau show that retail prices in urban areas nationwide rose 12.2 percent, even higher in some large cities. There were widespread complaints about such price increases. But the rise in the price index was mainly attributable to the lifting of price control on non-staple foodstuffs, which was offset by state subsidies. The wage reform of 1985 boosted a worker's wage by as much as 20 percent on the average. For the vast majority of people, living standard has not declined but actually improved somewhat. In the latter half of 1985, the government clamped down on bank lending, checked excessive wage and bonus increases, and imposed a bonus tax on bonuses exceeding the permitted level. If the money supply did not expand appreciably faster than commodity output and circulation in 1985, then prices in 1986 will change little from the level a year ago.

Summing up years of experience, the cornerstone of price stabilization is not strict price control but money supply control. In March 1950 the government put the squeeze on the money supply, and 12 years of galloping inflation came

to an end there and then. That at a time when there was no price control. What the government did was to rely solely on a tight money-supply policy to prevent the money supply from expanding faster than production. The result: stable prices. Another round of inflation occurred in 1958-60. The government responded with rationing, which stabilized the prices of 18 major categories of consumer goods but failed to check soaring country fair trade prices. After the government withdrew large amounts of money from circulation, the prices of country fair trade dropped and high-priced commodities again changed hands at reduced prices. If the government merely hands out financial subsidies to stabilize prices, which can only swell the fiscal budget, it will end up with no choice other than resorting to the printing press, and price rises in various forms will ensue. To control the money supply is to cut the Gordian knot of inflation. To offer subsidies, which entails a bloated money supply, is analogous to adding fuel to a fire and, if misused, may cause prices to spiral.

How then does the government control the amount of money it issues? In the past this usually meant balancing the budget. Since the only source of capital investments was government appropriations, controlling the amount of appropriations effectively put a cap on the scale of infrastructural development. With the restructuring of the economic system since 1979, enterprises have their own funds and banks have vast sums of deposits and savings available to finance capital projects and enterprises' technical transformation projects that require limited outlays and pay off quickly. In recent years, there has been relatively strict control on national capital investments. It is projects financed by localities and enterprises with their own funds or bank loans that have experienced a spurt of growth. Today investments outside the state plan make up two thirds of all investments. Bank lending got out of hand in the fourth quarter of 1984 and the first quarter of 1985. Most of the loans involved went to finance infrastructural construction. This kind of loans cannot be paid back in a short period of time. Moreover, even after a project is completed, it will need an additional infusion of circulating capital equivalent to almost half the initial investment before it can go into production. Beginning in the second half of 1985, the government gradually cut back on bank lending. To ensure normal production, however, it could not possibly let bank credit in 1985 drop below that of 1984. It is estimated that strict control must stay in place for 2 more years before infrastructural development can be trimmed to an extent consistent with the supply of means of production. Only then will the negotiated prices of means of production fall substantially. And only then will the government be able to increase official prices gradually to close the gap between the two sets of prices.

Runaway wage and price increases in 1984 turned an adequate supply of consumer goods into a shortage and led to a small number of price increases of an inflationary nature. (Since these increases often take the form of trademark changes, covert price rises, and the practice of passing off inferior merchandise as something better, they cannot be calculated with accuracy.) Because of wage reform, wages still went up considerably in 1985, which means that the market may yet come under pressure in 1986 generated by the excessive increase in consumption funds. But provided there are no further rises in the prices of non-staple foodstuffs, the general price level may remain basically

stable as during the 1981-1984 period. We should make every effort in the next 2 years to contain consumption fund growth to the same pace as the expansion of consumer goods production (agriculture and light industry) and achieve a balance between consumption funds (the demand for consumer goods) and the supply of consumer goods. That way the prices of consumer goods will be kept stable.

To sum up, fundamental to maintaining basic price stability is curbing inflation. And preventing inflation requires a firm resolve to limit infrastructural projects to an extent compatible with the supply of means of production. It also requires a resolve to restrain the increase in consumption funds (which means checking group purchasing as well as limiting wages and bonuses) so that it is in line with the supply of consumer goods. Accomplish these two feats, and we will be able to keep the prices of means of production and consumer goods at stable levels, and on that basis, continue to adjust the price structure, increasing some prices and lowering others. Should we fail to cooperate and hold the line on infrastructural investments and consumption funds explosion, but simply resort to price control by fiat, we will be getting our priorities wrong. The result will be continued price distortion, which militates against the development of production and improvement of living standard, particularly the further restructuring of the economic system. It was pointed out at the 3d plenary session of the 12th CPC Central Committee that the success of the restructuring of China's economic system hinges on its ability to reform an unsound price system. It now appears that whether or not it manages to maintain basic price stability and succeeds in price reform and price management system reform, in turn, depends on its ability to regain control on the growth of accumulation and consumption so that the total demand for social output equals total supply. It is hoped that comrades in theoretical work delve into this objective law and spread the word to make it known to all, thereby creating a favorable environment for price reform and for the restructuring of the entire economic system.

12581

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ECONOMIC MANAGEMENT

FINANCE MINISTER ON CONTROLLING GROUP PURCHASING

Beijing CAIZHENG [FINANCE] in Chinese No 7, 8 Jul 86 pp 1-3

[Article by Wang Bingqian [3769 0014 0051]: "Control Group Purchasing to Meet the Needs of the Times"]

[Text] I. To Control Group Purchasing is to Meet the Needs of the Times

The central government has always given high priority and paid close attention to the control of social group purchasing. The several reports considered and approved by the fourth session of the Sixth National People's Congress not long ago all call on us to make an effort to maintain the basic balance between total social demand and total supply, strictly hold the line on administrative costs and social group purchasing, and carry on the fine tradition of arduous struggle, hard work, and thrift upon which the republic was founded. Accordingly controlling group purchasing is what our times require.

(1) Controlling social group purchasing is necessary for maintaining the basic balance between total social demand and total supply. For various reasons, the gap between total social demand and total supply will remain quite wide during the Seventh 5-Year Plan. To bridge this gap, we must, on the one hand, promote production, increase economic efficiency, tap new sources of wealth, and work hard to expand total social supply to ensure that the needs of production expansion and people's livelihood are met. On the other hand, we must contain total social demand at a reasonable level through macroeconomic control and regulation with the necessary economic, legal, and administrative tools. In the first 2 years of the Seventh 5-Year Plan, in particular, we must focus on curbing total social demand and solve the problems of over-investments in fixed assets and the explosion of consumption funds. Only thus can we provide the restructuring of the economic system with a more relaxed economic environment and enable reform to proceed smoothly. Controlling group purchasing is a pivotal aspect of controlling total social demand, a vital administrative instrument. We must go out of our way to use it, and use it well.

(2) Controlling social group purchasing is necessary for continuing the fine tradition of thrift, hard work, and arduous struggle upon which the republic was founded. One hears less about this fine tradition in recent years, which

has led some people to think, mistakenly, that the ethic of hard work and thrift is a thing of the past. Despite its rapid economic advance over the past few years, China remains a very poor country and a yawning gap still exists between its per capita national income and that of developed nations. In some areas, the masses still lack basic necessities such as food and clothing. Even when China becomes prosperous in the future, we cannot discard the ethic of work and thrift because it is our party's, our nation's, and our Chinese people's fine tradition. In the noble and protracted undertaking of building socialism and achieving the four modernizations, we must tackle the material civilization and spiritual civilization at the same time. It is exactly because they have taken leave of this fine tradition that some comrades these days go in for ostentation and extravagance, parade their wealth, and fall over themselves in their eagerness to purchase and change imported cars and upscale consumer goods. Then there are state-owned units and members of the public who scramble for commodities much sought-after in the market, which too has a bad influence. We must do a good job at the group purchasing control end to help carry on the party's fine tradition, rectify the party style, and elevate the social tone.

(3) Controlling social group purchasing is also necessary for maintaining a balanced national budget. Last year China balanced its budget, which is no mean feat. But the nation faces a daunting task in trying to keep expenditures in line with revenues this year. Currently there is a substantial shortfall between the needs of construction and the amount of funds available, so we must take all effective measures and make a mighty effort to boost revenues and strictly limit spending. Controlling social group purchasing is essential to balancing the national budget this year and indispensable to turning around China's fiscal and financial state. We must succeed in this aspect.

II. A Review Of Group Purchasing Control during the Sixth 5-Year Plan

Social group purchasing nationwide totaled 142.1 billion yuan during the Sixth 5-Year Plan: 20.4 billion in 1981, 22.5 billion in 1982, 25.7 billion in 1983, 32.5 billion in 1984, and 41 billion in 1985. While the situation was basically sound in the first 3 years, the expansion of group purchasing got out of hand in the last 2 years. Specifically, owing to adjustments in the national economy and heightened control on social group purchasing, such purchasing went up annually from 1981 through 1983 by just 9.7, 10.5 and 13.8 percent, respectively, over the preceding year. These increase rates cannot be considered excessive and are comparable to growth rates of citizen purchasing: 11.8, 9.8, and 10.9 percent in 1981, 1982, and 1983, respectively. From the second half of 1984, however, because of lax control on group purchasing as well as half-hearted macroeconomic management, consumption funds shot up and group purchasing also soared, rising 26.5 and 26.3 percent in 1984 and 1985, respectively, compared to the year before and exceeding by far the growth rates of the gross value of industrial output in those 2 years, namely, 14 and 18 percent.

We need to analyze the reasons behind the sharp jump in social group purchasing in 1984 and 1985 realistically.

Both normal and abnormal factors are involved. In recent years, education has expanded very rapidly, with a corresponding increase in the use of electric teaching aids. As agencies multiplied, staffing increased, and office equipment was gradually modernized, prices also went up. All this made for more group purchasing. But part of the increase in group purchasing was abnormal: Some comrades indulged in ostentation and extravagance, showed off their wealth, and spent money recklessly. The result was extensive waste. Moreover, some localities and agencies failed to take the control of group purchasing seriously enough and slackened off their leadership over it, leading to a loss of control. We must act to change this state of affairs.

An analysis of the composition of group purchasing shows that while both state-owned units and collective units increased their purchasing, the latter outpaced the former. Currently only state-owned units, large urban collective units, and collective units above the county level are subject to group purchasing control. Excluded are small urban collective units and township and town collective enterprises. Because such enterprises and units have flourished in recent years, their group purchasing has also grown very quickly. In 1985, the total value of group purchasing by collectives topped 19 billion yuan, about half of total social group purchasing. Group purchasing by township and town enterprises is estimated to account for 30 percent of total social group purchasing.

People who control group purchasing now tighten their grip, now relax it. On the whole, though, they tend to be too lenient. The guiding philosophy behind group purchasing control is this: in accordance with the development and needs of the objective situation, combine strictness with leniency within a framework of stringent control and consider each case on its own merits. Owing to the one-sidedness in our way of thinking in the last couple of years, we were lax in our control for a while. This is another important reason why group purchasing increased excessively.

Of course there are many localities and units which have done an excellent job in holding down group purchasing in this period. Following the promulgation by the State Council of an emergency circular last year, in particular, they have conscientiously intensified guidance and taken measures to implement the spirit of the central government and State Council. They have done a lot of work, and much of it has paid off.

III. Some Proposals for Successful Control of Group Purchasing in 1986

By and large, the effort to control group purchasing went relatively well in the first quarter this year, when total social group purchasing nationwide grew 5.4 percent over the same period last year. But a 5.4 percent increase on top of the 39.8 percent growth recorded in the first quarter of 1985 still means a considerable average annual expansion for this two-year period. In April, the growth rate rose again, by 7.8 percent over April 1985. Accordingly, we must never take group purchasing control for granted and lower our guard. We must continue to publicize the government's policy and work unrelentingly.

(1) We must further heighten ideological understanding. The need to and importance of controlling social group purchasing has been discussed above. It has political as well as economic significance. Spurning the fine tradition of thrift, hard work, and struggle, some comrades nowadays have become pleasure-seeking and preoccupied with the need to out-spend one another and "keep up with the Joneses." Last year, units nationwide spent over 6 billion yuan to purchase 110,000 cars alone, several times more than the annual outlay on cars in years past. We absolutely cannot go on like this. The purposes of controlling social group purchasing is to guide people toward sensible consumption, cut down on waste and extravagance, conserve capital and materials, and build up a momentum for economic growth. That is why comrades everywhere in charge of group purchasing control must put their ideological house in order, fully appreciate the profound significance of checking the growth of group purchasing, overcome their shortsightedness and fear of difficulty, and persevere with group purchasing control as a vital, long-term task.

(2) We must operate in strict accordance with relevant government rules and regulations. Some of the current policies, regulations, and methods governing group purchasing were formulated by the central government and State Council, others by the Office for the Control of Group Purchasing in the spirit of the instructions of the central government and State Council. They combine strictness with leniency, deal with each case on its own merits, and are consistent with the spirit of reform and economic invigoration. All localities, agencies, and units must enforce the pertinent government regulations in earnest. They must not plead special circumstances, relax a rule arbitrarily, or do things their own way. The leaders of leading bodies and units, in particular, must set an example and take the initiative to obey the law of the land.

(3) We must continue to do our homework. We must build up a record of materials on the examination and approval of special controlled commodities, study and work out principles and related criteria for the examination and approval of such commodities, examine the per capita purchasing quota at various kinds of units, and collect and compile information and history on the changes in the purchasing of the unit or locality concerned. The purchase of cars must be properly controlled in cooperation with the various units concerned. Everything must be done to help new agencies and personnel improve their policy and professional standard and control group purchasing.

(4) We must define the methods of managing collective enterprises. Collective enterprises above the county level should be managed in accordance with the way state-owned units are managed, while township and town enterprises should also come under necessary purchasing control. But the methods of control should be of a guiding nature. We should make demands on the units, issue targets for their reference, and steer them toward purchasing control through guidance, assistance and encouragement.

(5) We must step up inter-agency coordination. A unit must obtain permission before it can purchase any of the 17 categories of commodities under special control. A supply unit may release the goods wanted only when a purchase permit is submitted. The same document must be produced before a bank will

settle an account, before the treasurer's office of a unit will make a payment or reimburse expenses, or before a motor vehicle bureau will issue licenses to social groups. All pertinent agencies must coordinate their actions and act in concert to supervise group purchasing control.

(6) We must enforce group purchasing discipline. As strict discipline is necessary to ensure that group purchasing is strictly controlled, it must be enforced in conjunction with the rectification of the party style. We aim to enforce all orders and prohibitions strictly. All localities must inspect group purchasing control once or twice this year, review their experience and lessons, and solve existing problems.

(7) We must strengthen leadership over group purchasing control. Leaders at all levels must devote themselves to group purchasing control at regular intervals each year. Leading groups on group purchasing control must step up close supervision over group purchasing control and carry out regular inspections. This year's purchasing control targets have been issued. They must be fulfilled by all localities and departments, down to the grassroots units, so that they can genuinely limit group purchasing.

12581

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ECONOMIC MANAGEMENT

PERSONNEL MANAGEMENT IN SHENZHEN SEZ ENTERPRISES

Guangzhou GUANGDONG SHEHUI KEXUE [SOCIAL SCIENCES IN GUANGDONG] in Chinese
No 2, 6 Jun 86 pp 72-75

[Article by Chen Jianian [7115 0857 1628], Department of Enterprise and Personnel Management, Chinese University of Hong Kong: "Personnel Management in the Shenzhen SEZ"]

[Text] Since China formally decided to establish SEZ's in 1979, development of the zones has become an attention-grabbing measure in China's implementation of its policy of opening to the outside world.

There are many foreign businessmen now in China's SEZ's, including Hong Kong and Macao businessmen participating in various forms of investment. These foreign and Hong Kong businessmen are not only bringing in production technology and funds, they have also brought in systems and methods of enterprise management. Due to the various efforts made since the SEZ's were established, their economic benefits are becoming more obvious every day. The agreements signed between the zones' enterprises and foreign businessmen and the advanced technologies brought in increase day by day and month after month. The zones' total industrial output value is also increasing constantly. The zones' Sino-foreign cooperative enterprises (hereinafter referred to as "SEZ enterprises") hold an appropriate position in the economic history of contemporary China.

I. The SEZ Function and Enterprise and Personnel Management

The SEZ's have roughly five functions:

1. To bring in foreign funds (including Hong Kong funds) and increase foreign exchange;
2. To bring in advanced production equipment and technology;
3. To introduce advanced management methods from Hong Kong and foreign countries;
4. To generate employment;
5. To train managerial personnel.

Items 3, 4, and 5 above are all closely related to the development of enterprise personnel resources, i.e., they are related to personnel management. Undoubtedly, personnel management has a tremendous influence on the business growth of the SEZ's; in the last few years, SEZ enterprises have taken the lead in undertaking reforms in the area of personnel management, and a certain amount of success has been achieved and has attracted the close attention of people in the interior. The present article will attempt to examine the successes of personnel management in SEZ enterprises, taking Shenzhen as an example, in the hope of providing a reference for enterprises not in the SEZ's and of offering SEZ enterprises additional frames of reference for proper personnel management.

II. Categories of Personnel Management

In Western personnel management, personnel management forms its own system and is taken seriously. Categories of personnel management include the following: hiring; training; professional evaluation; promotions, rewards, and punishments; industrial relations, industrial safety; wage management; benefits and cultural and recreational activities, etc. Some enterprises also include such things as "housekeeping," plant security, personnel communications, meals and "quality of life guidance" within the work of the personnel management department.

In their reforms of personnel management, the outstanding categories dealt with by the SEZ enterprises have been hiring, training, evaluation, promotions, wage management, and industrial relations. We shall now discuss each of these:

SEZ Enterprise Hiring: The SEZ enterprises utilize a system of public notices of vacancies to hire personnel; a good many SEZ enterprises successfully utilize such systems to select qualified personnel, such as the Jiale Bedding Factory, the Jianian Printing Plant, the Youyi Restaurant, etc. The hiring procedure followed by these enterprises is as follows: 1) Public notice of vacancies to be filled, without relying on the labor office to assign people; 2) examination of the applicants' data, with a very close examination of their educational levels, personal qualities, and desire--with both the Chinese and foreign partners in the enterprise sending representatives to participate in this examination; 3) applicants qualifying in the initial examination take written and oral tests relating to the work; 4) the enterprise makes its selection from those passing the tests; 5) those hired work for a probationary period; those who prove themselves to be good workers have their employment continued as contract workers and sign a formal work contract with the enterprise. Under the contract system, those whose work does not conform to contract conditions are dismissed; during the contractual period, the worker is also entitled to make a reasonable request for release.

The SEZ enterprises' use of the public vacancy notice and contract system has expanded its pool of potential workers and has made selection of suitable personnel easier. The spread of the public vacancy notice and contract system has also done away with the "big rice bowl" and the practice of assigning rank

according to salary. Another major impact of the system of public vacancy notices and contracts is that those selected have a positive feeling toward the enterprise for having their abilities recognized, and because they deem it an honor to have been chosen, they may also be vigilant with regard to the company's strict requirements; the employees' enthusiasm for their work is thus increased either directly or indirectly. The system of public notices and contracts has had an excellent chain-reaction effect on personnel enthusiasm and enterprise development.

SEZ Enterprise Employee Training: The SEZ enterprises take employee training very seriously. They pay particularly close attention to employee work efficiency and productivity, and thus training has become an important aspect of the enterprises' work. SEZ enterprises provide appropriate training both in managerial knowledge and skills for management personnel, and in work ability and resourcefulness for employees. Types of training provided include in-house classes, outside study, and the encouragement of independent study. For example, the Shenzhen SEZ's Import-Export Trade Group set up a special training department charged with training personnel and at the same time sending employees to institutions of higher learning on a contract basis and hiring college professors to teach classes at the enterprise. Or the Shenzhen No 1 Construction Co., which specially printed up training materials for all job categories and large quantities of other training materials which were given to employees at all levels to read; technical classes were also held, with the trainees receiving certificates upon satisfactory evaluation. The company also supports employees who take time off work to study. This company also hired a training consultant, which illustrates the emphasis placed on employee training. The results of this training show a clear improvement in employee quality, with a corresponding improvement in the quality of service, which has established a first-rate reputation for the company. Other enterprises in the SEZ, such as electronics firms, hotels, etc., also consider training very important. This attention to employee training by the SEZ enterprises has not only improved employee quality and developed employee potential, it has also engendered a caring sense of belonging to the enterprise. Employees, influenced by Chinese and outside instructors who earnestly practice what they preach, are inspired to increase their drive and develop a spirit of initiative that says: "Work is part of life."

Evaluations of Outstanding Employee Achievement, Promotions, and Rewards and Punishments: Evaluation of outstanding employee achievement in the SEZ enterprises is based on the personal responsibility system. There are three criteria for evaluation: 1) attendance; 2) work quality; 3) moral character and behavior. Subjects of evaluation include all units, teams, and individual workers. Evaluations and promotions, demotions and rewards and punishments are interlinked. For example, the Kaida Toy Factory in Shekou has set clear provisions regarding employee evaluations, rewards and punishments; types of rewards include citations of merit, promotions, and bonuses. Evaluation criteria include product quality, improvements in work methods and construction, conservation of raw materials, industrial safety, employee initiative, protection of plant assets, etc. The plant gives appropriate rewards to those who meet the above evaluation criteria; sanctions are applied

to those who do not. Another example is the linkage between work performance and wages for employees of Shenzhen's Youyi Restaurant; aspects evaluated include work performance, willingness to learn, ideological character, etc. The managerial staff evaluates the employees once each year to determine employee bonuses for that year along with the following year's wages and promotions. Following the restaurant's conscientious evaluation of its personnel, the work performance of all employees is quite good, and worker enthusiasm, sense of responsibility and cooperation among employees are all greatly improved.

Wage Management: The principles of wage management in the SEZ enterprises are high wages (relative to the interior), high efficiency, and greater earnings for greater work. Types of wages include contract wages, negotiated wages, hourly wages, and piecework wages. The enterprises use three systems for calculating wages: 1) floating wages; 2) floating wages across the board; 3) floating wages by position. Floating wages include basic wages, floating wages by position, and floating wages; in actual practice they are linked to profits and are paid according to individual performance. For example, for wages of employees of the Zhuyuan Hotel, 50 percent of their floating wages are linked to the room occupancy rate, and 50 percent are determined by individual performance. The Youyi Restaurant's method is to divide the calculation of floating wages into three parts: attendance (30 percent), service quality (45 percent), and environmental hygiene (25 percent). SEZ enterprises using floating wages have all clearly improved achievement; the enterprises have reduced the effects of "one type only" fixed wages, which has served to stimulate employees to the extent that their work efficiency and quality have improved.

Industrial Relations: Industrial relations, or the relationships between labor and capital, are another type of special relationship in the SEZ enterprises. Due to the influence of the influx of foreign capital and the contract system, relationships between employees and foreign investors or their representatives have taken the form of employer-employee and capital-labor. With this type of relationship, disputes may arise due to differences in the ideals, goals, interests, and demands of the two sides. It is, therefore, important that good industrial relations be promoted in SEZ enterprises. At present, the major premise of the Chinese and foreign sides is basically "mutual benefit and deference, jointly creating favorable conditions for the enterprise," and every effort is made to maintain good labor-capital relations. When employees have a demand, make a suggestion, or call for an appeal, they may present it to the Chinese management or to the union. The management personnel and the union then formally or informally present a proposal to the foreign investor's representative, or undertake negotiations, discussions, or talks in order to find a resolution acceptable to both labor and capital.

The new model of industrial relations in the SEZ enterprises has had the effect of increasing supervision and increased understanding on both sides; it also ensures the welfare of the employees, improves the work environment and achieves the goal of peace and mutual benefit.

III. Functions of SEZ Enterprise Management Forms

The foregoing shows the successes of the SEZ enterprises; personnel management has had no small influence in this. Flexible and appropriate application of the principles and techniques of personnel management can improve employee productivity and increase the enterprise's economic returns. The system of public notices and contracts has strengthened the quality of basic personnel resources in SEZ enterprises and ensured the principle of "employment by qualification only." Implementation of a system of evaluation and training has increased the technical, managerial, and work capabilities of SEZ enterprise employees, has cultivated their spirit of initiative, and mobilized their enthusiasm and desire for improvement. The wage system and the system of promotions, rewards, and penalties has enabled SEZ enterprise employees to satisfy their material demands; mentally they have been encouraged, thereby increasing their drive.

Further improving personnel management in SEZ enterprises will have considerable benefits for enterprise operations and SEZ development; the forms of personnel management in SEZ enterprises can also serve as reference for inland economic development zones and other non-SEZ enterprises. Although enterprises with foreign capital are different from those without it, and the SEZ system is different from the non-SEZ system, there are points of similarity in the personnel management of both types of enterprise. In the interior, domestic associations among enterprises are being encouraged; if the investors in these domestically associated enterprises come from different areas or sectors, they will be somewhat similar to the SEZ enterprises, so that the personnel management forms used in the SEZ enterprises will be valuable as references for them.

IV. Further Improving Personnel Management in SEZ Enterprise

Since personnel management in SEZ enterprises merits close attention, we should now consider further improving personnel management in SEZ enterprises. The following points may serve as reference for this topic:

1. Creation within the enterprise of a specialized personnel management department to provide overall planning for all personnel management functions;
2. Joint training of full-time, qualified personnel management staff by SEZ educational institutions and the enterprise, to create an effective, full-time personnel management department to carry out personnel management;
3. Within the enterprise, improving the planning, organization, staffing, coordination, and other enterprise functions of full-time personnel management;
4. Thoroughly studying the future development of full-time personnel management within SEZ enterprises, taking the initiative to resolve their various present personnel management problems, in order to create an effective, favorable environment for the entire SEZ system.

Further achievements in SEZ enterprises depend to varying degrees on further improvements in personnel management. If a future model for personnel management in SEZ enterprises is to be established, the factors behind the success of present SEZ personnel management must be understood.

V. Factors in the Success of Personnel Management in SEZ Enterprises

The basic factors making it possible for the personnel management system of the SEZ enterprises can be grouped together in the following points:

1. Expansion of enterprise autonomy: SEZ policy allows enterprises to have great autonomy; this includes authority in personnel management. SEZ enterprises can, therefore, hire, assign, and promote personnel more flexibly and are able to set up a personnel system and regulations adapted to individual enterprises and meeting actual needs.
2. Specific personnel systems and regulations for enterprises: Another characteristic of personnel management in SEZ enterprises is that the systems and regulations they have set up are extraordinarily specific. For example, the employment contract very clearly spells out the conditions of the worker's employment; the labor management clause for each enterprise explains in detail the relationship between varying worker performance and wages, promotions, and rewards and punishments. The 100-percent evaluation system of some enterprises spells out in ever greater detail the principles behind each increase or decrease in points for employees in different posts. This approach not only makes it possible to truly implement the personal responsibility system, it also ensures each employee is treated equitably and has the opportunity to exploit his abilities, thus further increasing worker enthusiasm.
3. Appropriate reforms of the personnel system: The employees hired by SEZ enterprises include permanent workers, contract workers, and temporary workers. Permanent workers are those who have been transferred over from state enterprises under the system of public ownership. SEZ enterprises use an overlapping system of "new people under the new system, old people under the old system." On the one hand, they promote the contract labor system, and on the other they deal with permanent workers. This gradual approach to reform of the personnel system has avoided the conflicts and clashes that may be caused by arbitrary uniformity.
4. Interchange of personnel among enterprises: SEZ enterprises are empowered to dismiss employees, and employees also have the right to select their enterprises and to resign. The managers of SEZ enterprises are also able to hire and fire on the basis of merit: for this reason, there is an interchange of personnel, who are thus able to develop their skills, and the enterprises benefit as well.
5. Flexible models of personnel management reform: Foreign businessmen have introduced Hong Kong and Western personnel management systems into the SEZ's, but SEZ enterprises have certainly not adopted them in their entirety; rather, they have selectively referred to and learned from them. For example,

personnel management in Hong Kong places heavy emphasis on economic returns; the basis of personnel management is seeking out and training skilled personnel and exploiting the abilities of employees in order to increase production capacity and earn greater economic returns for the enterprise. SEZ enterprises have selectively referred to this Hong Kong personnel system, but they have also maintained the social benefits and functions of Chinese enterprise personnel management in order to provide greater social guarantees to employees. This is a shortcoming of the Hong Kong personnel management system and should serve as a lesson.

If the SEZ enterprises are able to master and exploit the factors of their success, understand in greater detail the specialized nature of Hong Kong and Western enterprise personnel management, and improve personnel management in SEZ enterprises, then a personnel management model for SEZ enterprises in the 21st century, with specifically Chinese characteristics that can serve as a point of reference for China, is just around the corner.

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FINANCE AND BANKING

FUNDS MARKETS DEVELOPED, CIRCULATION IMPROVED

Beijing LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 38, 1986 pp 11-12

[Article by Gao Qinglin [7559 1987 2651]: "China Goes All Out to Develop Fund Markets"]

[Text] One of the tasks of the restructuring of the financial system is to introduce market mechanisms into funds circulation, increase the efficiency of fund-raising and distribution, and gradually create a funds market that the central bank can effectively control.

In recent years, horizontal economic linkages in all forms and shapes have been springing up across the nation. Inter-regional, inter-industry horizontal economic associations number in the tens of thousands. As many as 70,000 economic and technical cooperation agreements have been signed, boosting cooperation in goods and materials to 34 billion yuan. As the development of this horizontal economy ran into the barriers created by the vertical distribution of funds and credit and a fragmented system of management, demands arose for the formation of a funds market.

A Funds Market Has Sprung into Life

In response to a clamorous demand, bank credit, national credit, commercial credit, consumer credit, and other forms of credit have successively emerged: China has met the preliminary conditions for a funds market.

- First, national credit has been revived. The government issued people's victory discounted bonds in 1950, followed by economic construction bonds in 1954, but had been paralyzed since then by the idea that "China should be free from foreign and internal debts." It was not until 1981 that the government began issuing treasury bonds to balance the budget and raise development funds. Last year it also began to allow the use of treasury bonds as security and discount. Since 1982, the China International Trust and Investment Corporation has floated international bonds overseas a dozen times, earning a fairly high credit standing.

- With the development of bank credit, an area long marked off-limits has now been opened up. State banks have issued fixed assets loans. Investments in infrastructural construction, which used to take the form of budgetary

appropriations, now consist mainly of bank loans. Today circulating funds are managed in a centralized manner by the banks. The scope of lending has also been extended to individual commercial and industrial households, tourism, culture and education, science, technology, and other areas. Between the central bank and specialized banks have arisen depositor and creditor relations. Specialized banks themselves have been lending to one another at discount rates. In addition, they have issued bonds in order to raise funds at interest rates.

- An array of instruments directly easing the movement of capital has appeared, including commercial credit extended by the seller to the buyer in a commodity deal, bonds issued by an enterprise to raise funds among members of society, the issue of stocks, and borrowing and lending among private individuals in the countryside. Besides, a discount market, and a securities market have begun to take shape.

Last year 820 enterprises in Guangdong Province alone issued stocks, raising more than 500 million yuan in capital. This August Shanghai issued over 530 million yuan worth of bonds in society to finance a project capable of producing 300,000 tons of ethylene.

- Commercial credit has begun to take the form of bills. It was traditional commercial practice in China to buy on credit. In April 1985, the People's Bank of China announced that it would honor and discount commercial bills of exchange. Over the past year, the bank has been gradually extending such services to every part of the country. In April 1986, China again announced "rediscount methods." Now that commercial credit has taken the form of bills, we have been able to avoid the "triangle of indebtedness" phenomenon in which several enterprises will find themselves in financial difficulty when one enterprise goes under. In regular transactions between enterprises, units or individual households in which goods are sold on credit, the two parties should draw up a purchase and sales contract specifying the payment due date. At the appointed time, with the buyer's approval, the seller may present his commercial or bank bill of exchange (promissory note) to the bank where the buyer has an account and make a withdrawal. If the buyer needs funds urgently before the bill of exchange matures, he can sell it to a bank at a discount, in which case the bank will pay him in cash the face value of the bill minus interest at a discount rate.

- Inter-bank lending at discount rates has been one of the fastest growing activities in the market aimed at facilitating capital circulation. There have been more than 300 such loans valued at 1,116,500,000 yuan in the 5 major cities of Shenyang, Guangzhou, Wuhan, Chongqing, and Changzhou so far this year. Bills worth a total of 418 million yuan were honored by banks in the same period.

It is thus a matter of time before we see the appearance in China of a fund market dominated by bank credit and supplemented by other forms of credit. For the moment, however, the amount of funds in circulation is still very limited. Insurance funds cannot be used as investments. Nor can foreign exchange be used to directly ease capital flow. Funds that do enter the market are mostly extra-budgetary funds and personal incomes minus

consumption. In addition, there are no standards governing different forms of credit; stocks and bonds are not strictly distinguished from each other. Many are receipts or charged to accounts. To a great extent, the issue of bonds is still in an exploratory stage. Because market mechanisms are not yet completely in place, treasury bills and the raising of funds from among members of society still smack of apportionment and bank credit becomes largely divorced from other forms of credit.

We can see that China's money market is still in its infancy and has a long way to go before it matures. But it has freed itself from the straitjacket of the old financial system.

Developed Areas Move One Step Ahead

Through a variety of methods, the five cities experimenting with financial reforms--Guangzhou, Shenyang, Chongqing, Wuhan, and Changzhou--have raised a total of 13.74 billion yuan in capital thus far in 1986, equivalent to 9.2 times what the government granted them in short-term credits in the same period. Under these cities' leadership, the People's Banks and industrial and commercial banks in 11 cities and regions with province-level economic decision-making authority, such as Xian, Nanjing, Shanghai, Wenzhou, Shenzhen, and Hainan, reached separate agreements last February on inter-bank borrowing at discount rates as the first step toward establishing a nationwide inter-regional, interprovincial capital circulation network. On the 8th, 18th, and 28th of each month, each bank in the network cables its counterparts in Wuhan, on which city the network is centered, informing them about its capital availability. This information is then relayed by the Wuhan banks to institutions in other cities. After that it is up to the banks themselves to approach other banks for credit. More than 20 urban centers have joined this network.

Fifty six urban credit unions, financial service companies, and financial companies have been opened in Chongqing, Wuhan, Guangzhou, and Shenyang. In mid-August this year, China's first private financial enterprise--Shanghai Aijian Finance and Trust Investment Corporation--was launched.

Extensive capital mutual-help organizations also exist within the joint economic groups in many sectors and industries in such large cities as Beijing, Tianjin, Shanghai, Guangzhou, Shenyang, and Wuhan to directly ease capital circulation. The honoring of bills at a discount has also become a booming business.

The "supply mode" of capital distribution of yesteryear has begun to give way to one where capital supply-demand is regulated by market mechanisms. Local and collective financial institutions and highly centralized national banks have become the three legs of a tripod, each on a par with the others. Horizontal channels of capital circulation have been opened up and are making a dent in the walls that used to separate the capital of specialized banks. All these changes signal that funds markets in economically developed areas have moved one step ahead of others.

Long- and Short-term Fund Markets Go Separate Ways

Fund markets can be divided into long- and short-term markets. A long-term funds market is equivalent to what foreigners loosely call "capital market" and mainly includes treasury bills, stocks, and bonds. A short-term funds market means "money market."

People in China's financial circles believe that at a time when the country has yet to develop effective mechanisms to control the scale of fixed assets investments, it should first establish a short-term funds market. Later it may develop a long-term market and open up in appropriate ways a foreign exchange market essentially to regulate foreign exchange.

Because of China's weak economic basis, capital undersupply will remain a major problem for a long time to come if it wants to maintain a brisk pace of economic growth. In the past, capital circulation was the exclusive domain of the banks. Today that kind of circulation must be extensively supplemented by the funds market. Since we limit the level of fixed assets investments, we cannot pump large quantities of currency into the long-term funds market. Furthermore, the issue and transfer of bonds involve a series of critical policy and legal issues. China's current credit system is underdeveloped; there is a lack of variety of credit instruments and in most cases, private credit and commercial credit take the primitive forms of oral agreement and buying and selling on credit. Starting from this basis, we need some time before we can diversify our credit instruments, perfect our credit system, and educate the people in the application and management of a varied credit portfolio.

12581

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INDUSTRY

LIN HANXIONG REPORT TO BUILDING MATERIALS CONFERENCE

Beijing ZHONGGUO JIANCAI [CHINA BUILDING MATERIALS] in Chinese No 4, 13 Apr 86
pp 5-9

[Summary of the Report to the National Work Conference of the Building Materials Industry delivered by Lin Hanxiong [2651 3352 7160], director of the State Building Materials Bureau: "Thoroughly Implement the 12 Measures To Develop the Building Materials Industry; Consolidate and Improve the Excellent Situation in Which Everyone Gets Involved in Building Materials Work"]

[Text] This year's National Work Conference of the Building Materials Industry [BMI] is the first such meeting held for the entire industry since the founding of the PRC. The main theme of this conference is as follows: We must be guided by the spirit of the CPC's national congress and proceed in accordance with the demands raised by the National Planning Conference, the National Economic Work Conference and the National Technological Improvement Conference, stress the study and implementation of the Program for the Development of the BMI and consolidate and advance the excellent situation in which everyone gets involved in building materials [BM] work. In the main, the conference is to engage in the following work: exchanging experience that everyone has gained in BM work, heightening understanding of the general policy of having everyone get involved in BM work, discussing and revising the (Draft) Regulations Governing the Policy of Having Everyone Get Involved in BM Work and the (Draft) Provisional Measures Governing Professional Management in the BMI, discussing technological and economic policies for the vitalization of the industry and planning our work for 1986.

I. A Review of 1985

The BMI experienced great growth in 1985, which was one of the best years of growth for the industry since the founding of the PRC and which witnessed the beginning of a strategic transformation of the industry and a new state of affairs in BM work and saw BMI supervising departments strive to strengthen professional management and to provide quality service.

At the beginning of the year, we proposed the general policy of having everyone get involved in BM work. Comrade Zhao Ziyang promptly granted approval and added the following important comment: "The policy of mobilizing departments, regions and enterprises to engage in BM work is correct and will

greatly accelerate the development of the industry." And in October, the State Council approved the Program for the Development of the BMI. Once the policy was approved, it immediately won the vigorous support of the ministries and commissions of the State Council, the provinces, the autonomous regions and the municipalities, and a new state of affairs arose in which everyone advanced together, whether belonging to the BM system or not; whether an integrated body or state run, collectively managed, individually operated; or whether capitalized domestically, externally or jointly. According to preliminary figures for the year, the state invested 750 million yuan in the industry; provinces, autonomous regions and municipalities contributed 860 million; and relevant departments in the state council and units at or below the county level added 1 billion, for a total of approximately 3 billion yuan. This level of investment accelerated the development of the industry, ameliorated the contradiction between supply and demand and greatly reduced the state's financial burden.

During the year, state quotas for primary building materials were exceeded. Cement output totalled 142.45 million metric tons, of which as much as 112 million metric tons, or 80 percent, was produced by departmental, regional, town and township enterprises. The total represented an increase of 19.43 million metric tons, or 15.8 percent, over 1984. Flat glass output totalled 56.05 million standard pallets, of which 31.16 million pallets, or 55 percent, were produced by departmental, regional, town and township enterprises. The total represented an increase of 7.75 million pallets, or 16 percent, over 1984. The total building space of housing constructed with new types of building materials reached 1.50 million square meters, a rise of 50 percent over 1984. Large increases in output were registered for other types of building materials, nonmetals, nonmetallic products and new types of inorganic nonmetallic materials.

For the year, total output value for the industry nationwide (excluding BM enterprises at the township level and below) was 34.0 billion yuan, an increase of 18.5 percent over the 1984 level of 28.7 billion. Of this amount, state-owned enterprises that belong to the BM system at the county level and above registered an industrial output value of 13.77 billion yuan and remitted 3.35 billion yuan in profit taxes to superior agencies, an increase of 13.5 and 18.4 percent, respectively, over 1984. Labor productivity throughout the industry averaged 7,466 yuan, an increase of 13.6 percent over the 1984 level of 6,574.

During the year, per-unit energy consumption in large and medium BM enterprises continued to decline. The average amount of clinkering coal used to produce 1 ton of cement declined from 205.5 kg in 1984 to 200.29, or 2.54 percent. And the average amount of coal used to produce one pallet of flat glass declined from 29.94 kg in 1984 to 29.32.

While getting involved in BM work, relevant departments of the State Council not only expanded production of traditional building materials but also utilized their advantages to expand variety, increase output, recycle and reduce energy consumption and develop new types of building materials.

Provincial, autonomous region and municipality leaders now place more emphasis than ever before on the development of the industry, and most regions have made the industry a pillar of the local economy and have made new achievements in accumulating funds on many levels, through many channels and in many forms, for the development of the industry.

While achieving remarkable results in implementing the policy of having everyone get involved in BM work, we have also accelerated the strategic transformation of the industry by improving technology; persisted in reform and done much effective work to invigorate enterprises, enliven circulation and expand exports; made gratifying advances in professional management; and strengthened the development of socialist spiritual civilization, bringing about new changes in the appearance of enterprises and the spirit of the labor masses of workers and staff members.

In summary, we engaged in three basic types of work in 1985: persisting in reform, upholding the general policy of having everyone get involved in BM work and continuing technological improvement. So long as we conscientiously carry out these three types of work, there will be great hope for the vitalization of the BMI.

II. Strengthen Professional Management and Provide Quality Service

China currently has nearly 60,000 BM enterprises, several hundred thousands if we include those run by villages. This constitutes the actual foundation for the development of China's BMI. The industry already possesses much variety, small enterprises predominate, hierarchical relationships among production and marketing cover the entire nation and the industry boasts an army 10 million strong. A strategic task we confront, as everyone engaged in BM work, is how to make this congerie of BM enterprises develop in a coordinated and healthy fashion and how to increase the technological, economic and social economic results and benefits of the entire industry. Strengthening professional management and providing quality service provide the basic means by which to realize this strategic task.

The BMI produces a variety of goods, includes many sectors and comprises one of the most important basic industries in the entire national economy. Nevertheless, the creation of vertical and horizontal barriers, the independence of self-contained systems and the lack of ties among these systems preclude horizontal economic relationships among departments, regions and enterprises. The creation of barriers, independent operations among self-contained systems and the lack of unified planning for the industry have caused departments and regions to engage in extremely blind development and in serious redundancy in construction, importing and production. And the creation of barriers and the independence of self-contained systems have led to a lack of unified technological policy and quality standards within the same sector and for the same product, which lacunae impede technological progress and product upgrading within the industry. Even though the industry has grown rapidly in the past several years, overall economic results have not been very good. Responsible BM departments at all levels should vigorously practice professional management and provide quality service so as to enable the industry to advance, by improving technology, along a healthy path of

development and production; to provide society with products that have a full range of variety, that are good in quality and sufficient in quantity and that are available in complete sets for each quality grade; and to increase the industry's economic results and social benefits.

In accordance with a directive from Zhao Ziyang, the State BM Bureau serves as the functional department of the State Council that is in charge of the entire industry. Professional management of the nation's BMI is organized and effected by the bureau in a unified fashion. Thus the bureau and BM departments at all levels effect professional management over the entire industry, including enterprises belonging to different departments, regions and systems of ownership, through a delineation of managerial responsibility by administrative level; in the areas of general and specific policy, laws and regulations, planning for the industry, technological improvement, transmission of information, development of skilled personnel, circulation of goods and materials and export-import trade; by using economic, legal and necessary administrative measures; and by providing macroscopic planning, coordination, supervision, guidance and, most of all, service.

In light of conditions in the industry, we are preparing to emphasize completion of the following work in professional management.

1. Study and formulate technological and economic policies for the industry.
2. Formulate long-range strategic objectives and medium- and long-range development plans for the industry.
3. Strengthen information work and gradually establish a better information network for the industry.
4. Import in a planned fashion suitable advanced technology and key equipment and organize work to introduce and adapt these imports and to make innovations so as to create our own technological and equipment system.
5. Establish an economic legal system and formulate and improve laws and regulations for the industry.
6. Draw up as quickly as possible a development program and appropriate technological and economic policies for the nonmetals industry.
7. Open international markets for building materials, especially for nonmetallic products, and formulate appropriate export policies so as to increase export earnings.
8. Vigorously strengthen such basic development projects as exploration, design, research, measurement and the establishment of standards; strengthen, especially, enterprise quality control work; improve quality control networks; and gradually implement licensing systems.
9. Carry out the BM educational development program; stress cadre, especially leading cadre, in-service training; and emphasize improved recruitment of skilled personnel.

10. While readjusting cement prices, study policies for further decontrol of BM prices.

III. Technological and Economic Policies for the Vitalization of the BMI

A. In view of conditions in China, in developing the cement industry we should link large, medium and small enterprises and use technologically advanced enterprises as the backbone of the industry so as to spur development of medium and small enterprises.

The development of the cement industry should focus on expansion and new construction of large and medium enterprises, and we should strive to increase as quickly as possible the proportion of high quality cement produced. We must adopt a variety of effective measures to attract funds from all sectors and regions into the development of large and medium cement enterprises. In effecting this development, we should employ precalcining and new dry-processing techniques. Except under unusual conditions, we should not build any more wet-processing plants. Existing wet-processing and Lepol kilns can be partially transformed and in general need not be torn down or completely retooled.

In the future, we should transform and expand existing cement enterprises by focusing on quality and by reducing costs. Ordinary shaft kilns must be mechanized, and existing mechanized shaft kilns should be improved and fully equipped in accordance with technical need. And new small cement enterprises producing less than 50,000 metric tons should no longer be established, nor will nonproducing kilns [? YADAN YAO] be permitted any more.

If the above policies can be effected, it is estimated that by 1990 output of stable, high-quality cement that can be used for structural construction may reach 100 million metric tons and account for 60 percent of all cement output. Meanwhile, product variety will increase, energy consumption will decline and the overall mix of enterprises will improve.

B. Flat Glass

For quite a long time to come, drawing and float processes will continue to coexist, yet we should emphasize development of float production. Except under unusual conditions, new plants should adopt the float process so that we can steadily increase the share of float glass output relative to total glass production.

For existing drawing production lines, we should step up technological transformation and stress improvement in quality and reduction of raw-material and energy consumption. In effecting technological transformation, we must vigorously adopt effective imported technology and equipment but should not tear down and completely retool old plants. In this way, we can meet demand for thin glass.

Where unprocessed flat glass is of sufficient quality, regions and departments should actively import, based on their own needs, mature foreign technology so as to engage in increasingly sophisticated types of production.

In the future we should not build new small float, small horizontal sheet and small drawing production lines.

If the above economic and technological policies are effected, it is estimated that by 1990 float glass output will comprise 40 percent of total national glass production, and 50 million standard pallets of glass will meet national specifications, of which amount one-third will meet international standards.

C. The Ceramic Bathroom Fixtures Industry

In the near future, besides stepping up development of zones in Beijing, Shanghai, Guangzhou and Chongqing that manufacture complete sets of high-grade ceramic bathroom fixtures, we should also stress production of medium-grade fixtures urgently needed by the broad masses.

We must import new technology to transform existing ceramics enterprises so as to produce bathroom fixtures that use less water, make less noise, are durable and provide good general performance.

While effecting specialized production, we should coordinate this activity, produce complete sets of fixtures and organize production of complete bathroom units. The State BM Bureau has formally ordered that enterprises supplying complete sets of fixtures may set their own prices and charge good prices for good quality.

We should encourage every sector to give full play to its advantages, accelerate growth and develop quality hardware accessories.

If the above policies are effected, by 1990 current product types will be discontinued so that ceramic bathroom fixtures are upgraded within a single generation.

D. The Wall Materials Industry

In accordance with the guiding principles of "tailoring measures to suit local conditions, reducing energy consumption and recycling wastes, protecting good agricultural fields and improving the environment," we should adopt the following technological and economic policies in this industry.

We should change the current mix of wall materials, in which solid clay bricks predominate, and in accordance with local conditions develop such new materials as hollow clay bricks, hollow concrete blocks, sand-lime bricks, aerated concrete, fired cinder-clay bricks, plaster products, nonfired clay bricks, various types of fiber board and concrete and other light composite wall panels.

We should adopt different technical measures so as to enable each region to have its own mix of wall materials and produce and supply complete sets of

materials. We must closely coordinate the work of this industry with the construction industry, produce wall materials of different specifications and function according to the needs of the construction industry and gradually develop a contract system for the supply of complete sets of construction materials.

Plants manufacturing equipment for the production of bricks and tiles should as quickly as possible terminate production of equipment for the manufacture of small solid clay bricks and shift over to the production of hollow clay brick manufacturing equipment.

The recycling of industrial wastes should follow the principle of "whoever produces wastes must dispose of them and whoever recycles wastes should enjoy the benefit thereby produced," and in terms of policy we should accord preferential treatment to recycling activity.

If the above technological and economic policies are effected, by 1990 we will be able to establish a number of demonstration production lines and model districts manufacturing new wall materials and to supply technology and equipment for the production of such materials. We should strive to increase the share of new wall materials relative to total wall materials output from the current 5 percent to 40 percent by the end of this century.

E. The Stone Materials Industry

Marble production must be rooted in domestic need. Exports should consist primarily of large crudely processed materials, not of cheap small materials. The capacity of the marble processing equipment we have already imported is sufficient to meet current demand, so we should not sign any more contracts for new imports.

In quality granite quarries, we should organize integrated production operations, including resource exploration, quarry design, extraction, marketing and sales, and service.

IV. Essential Work in 1986

The guiding ideology for the work of the BMI in 1986 is that we must abide by the spirit of the CPC's national congress and the demands of the national planning, economic work and technological improvement conferences; carry out the Program for the Development of the BMI; continue reforms; uphold the general policy of having everyone engage in BM work; continue improving technology; consolidate and improve the excellent conditions in the industry; and strive to fulfill all the tasks set for 1986. The industry's work in 1986 consists of the following essential elements.

1. We must issue the Regulations Governing the Policy of Having Everyone Get Involved in BM Work and Trial Measures Governing Professional Management in the BMI and formulate technological and economic policies for the industry.

2. We must conscientiously carry out the spirit of the National Economic Work Conference, continue reform, strengthen management, focus on improving economic results and strive to complete and overfulfill this year's production quotas. In increasing production, we must stress reducing consumption of goods and materials and make special efforts to reduce per-unit consumption. We must not only meet command targets but we must also do a good job in such areas as increasing product variety, improving product quality, expanding capacity to produce complete sets of equipment and materials, improving social and economic results and benefits, recycling wastes and eliminating dust and ensuring civilized and safe production. Only when we have fulfilled these tasks will we truly meet our production targets.

3. We must conscientiously carry out the spirit of the National Planning Conference, finish drawing up the Seventh 5-Year Plan and do a good job of investment management work. We must do a solid job in and complete the first phase of construction projects. In 1986 the first phase of all new construction, renovation and expansion projects included in the Seventh 5-Year Plan must be completed, and we must strive to complete most of the technological appraisal work involved in renovation and expansion projects.

4. We must conscientiously carry out the spirit of the National Technological Improvement Conference and advance this type of work in the BMI. During the Seventh 5-Year Plan, this work should focus on large and medium enterprises and enterprises earning foreign exchange through exports, and in import work we should stress technical knowhow and key equipment; make sure to link scientific and technological research projects with imports; uphold the general policy of integrating import work with import absorption, adaptation and innovation; and start from the highest level possible so as to promote domesticization of technology and equipment production.

5. We must accelerate development of the nonmetals industry by improving technology, apply technology more widely, orienting the industry to domestic and international markets, focusing on export foreign-exchange earnings, developing new minerals, making processing more advanced and sophisticated and improving enterprise economic results.

In developing the nonmetals industry, we must also implement the general policy of having everyone get involved in this work; mobilize the initiative of all regions, departments and and get the state, the collective and the individual to advance together, work together to develop and build and strive to achieve greater growth this year.

6. We must vigorously develop new building materials, pay special attention to the establishment of companies contracting to undertake interior decorating and fixture installation, organize supply of complete sets of products, serve construction work, reduce expenditure of foreign exchange and soak up much currency.

7. We must devote special attention to BM circulation work and further develop commercial markets for these materials. While ensuring fulfillment of command-plan allocations of cement, flat glass and the like, we must further develop the socialist BM market and improve market relationships step by step. We must

vigorously organize extraplan production, marketing and sales of building materials; speed up circulation of complete sets of these materials; and better serve the work of developing production.

8. We must carry on the fine tradition among BMI employees and do a good job of developing socialist spiritual civilization. The party fraction of the State BM Bureau has formulated the 12 Regulations Governing Improvement in Work Style and Discipline, and we will strive to achieve a basic improvement in the work style of agencies under the bureau and hope that BM departments at all levels and the broad masses of BMI employees will supervise this work. We also expect that leadership cadres at all levels in the industry will serve as models in the rectification of party work style and in resisting and correcting unhealthy practices.

We must strengthen ideological and political work. We must use the spirit of the CPC national congress to unify the thought of leadership cadres at all levels and heighten awareness of the need to continue emphasizing "the two civilizations." We must closely link enterprise reform with actual conditions in the development of production and, in accordance with actual employee ideological conditions, unremittingly advance the "four have's" and the "three senses" indoctrination work--to have ideals, to have morals, to be cultured and to have discipline and to have a high sense of responsibility, honor and pride.

With the approval of superior authorities, the party fraction of the State BM Bureau has decided to convene the first national conference of labor models and advanced collectives for the industry this June. This will be the first time the industry has held a heroes' conference since the founding of the PRC. We request that the employees of BM departments across the nation work together and cooperate fully to make the conference a success.

1986 is another year in the rectification of party work styles and in the effort to improve practices within the party and throughout society. This year is also the first of the Seventh 5-Year Plan and the first in which the Program for the Development of the BMI is to be widely carried out. With the correct leadership and vigorous support of the CPC Central Committee and the State Council, we will certainly make bigger and better achievements so long as we persist in reform, uphold the general policy of having everyone get involved in BM work, continue technological improvement, make concerted efforts and rouse ourselves to advance, pioneer and progress.

12431

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SMALL-SCALE ENTERPRISES

SATISFACTORY PROGRESS FOR SMALL-SCALE ENTERPRISES IN 1985

Beijing NONGCUN CAIWU KUAIJI [RURAL FINANCIAL ACCOUNTING] in Chinese No 7, 1986 pp 20-22

[Text] Guided by a series of policies and principles from the CPC Central Committee, township and town enterprises overcame obstacle after obstacle and achieved gratifying results in 1985, with all economic targets hitting record levels, making 1985 their best year in the Sixth 5-Year Plan in terms of growth rate and economic benefits. This was disclosed by the Bureau of Township and Town Enterprises of the Ministry of Agriculture, Animal Husbandry and Fishery.

-- The gross output value of township and town enterprises reached 272.84 billion yuan in 1985, 44.1 percent of the gross value of rural social output, 16.8 percent of gross national value of social output, and up 59.8 percent over 1984. Of the increase in the gross output value of township and town enterprises, 27.68 billion yuan were attributable to the expansion of the area in which statistics were collected. After adjusting for this change, their gross output value rose 43 percent over 1984, the largest annual increase in the Sixth 5-Year Plan, exceeding by far the growth rates of gross national value of social output and gross value of rural social output, namely 16.4 percent and 15.6 percent, respectively. The breakdown of the gross output value of township and town enterprises by type of enterprise is as follows: township and village enterprises, 198.78 billion yuan, or 72.8 percent, up 38.7 percent over a year ago; enterprises jointly operated by commune members, 24.5 billion yuan, or 9 percent, up 93.7 percent over 1984; other forms of cooperative enterprises, 6.17 billion yuan, or 2.3 percent; individual enterprises, 43.39 billion yuan (including 17.73 billion by individual industrial enterprises), 16 percent.

-- In 1985, township and town enterprises grossed 258.5 billion yuan in earnings, 66.9 percent more than in 1984. Of this, 30.31 billion yuan can be attributed to an expansion of the area in which statistics were collected. After adjusting for this change, earnings still grew 47.2 percent over 1984. The earnings breakdown by type of enterprise: township and village enterprises, 182.74 billion yuan (township enterprises, 103.9 billion; village enterprises, 78.84 billion), or 71.2 percent, up 44 percent over 1984; enterprises jointly operated by commune members; 23.07 billion yuan, or 9 percent, up 92.6 percent; other cooperatively operated enterprises, 5.79

billion yuan, 2.3 percent; individual enterprises, 44.96 billion yuan (including 6.32 billion by individual industrial enterprises), or 17.5 percent.

-- In 1985, township and town enterprises paid the state 13.72 billion yuan in taxes, 5.3 percent of their gross earnings, or 196.6 yuan per worker. Township and village enterprises accounted for 10.86 billion yuan, 2.96 billion more than in 1984, an increase of 37.4 percent. Of the 10.86 billion yuan, income taxes amounted to 3.27 billion yuan, up 25.8 percent; industrial and commercial taxes, 7.59 billion yuan, up 44.6 percent. In localities with booming township and town enterprises, tax payments by these enterprises have become the major revenue source of the local authorities. In 1985, township and town enterprises in Shenyang paid 161 million yuan to the government in taxes, which constituted 80 percent of the revenues collected by county and district governments in the area.

-- In 1985, township and town enterprises raked in 28.74 billion yuan in net profits, 11.2 percent of total earnings, or 411.8 yuan per worker, 52.8 yuan more than a year ago. The profits of township and village enterprises reached 17.13 billion yuan, 60 percent of total profits, up 4.26 billion yuan, or 33.1 percent, over 1984. The net profits were distributed as follows: 1) 6.77 billion yuan, or 40 percent, were turned over to local township and town (including village) authorities. This was an increase of 20 percent over the preceding year. Of this amount, 880 million yuan were earmarked for agricultural support, up 33.4 percent over 1984; 2.38 billion yuan were returned to the enterprises for expanded reproduction, up 19 percent over 1984; 620 million yuan were distributed among commune members; and 760 million were spent on rural social welfare projects; 2) 8.67 billion yuan were retained pro-rata by the enterprises. This constituted 50.6 percent of total net profits and represented an increase of 39.1 percent over 1984. Of this, 5.56 billion yuan were set aside for expanded reproduction. 3) 1.69 billion yuan, or 9.6 percent, were allocated to other uses.

-- The wages of township and town enterprise workers also went up correspondingly in 1985. Total wages amounted to 47.21 billion yuan, or 676 yuan per worker annually. The combined payroll of township and village enterprises was 30.14 billion yuan, 6.21 billion, or 26 percent, more than in 1984, which is lower than the growth rates of profits and taxes. Township and village enterprise workers earned 726 yuan on average for the year, up 103 yuan, or 16.5 percent over a year ago. As township and village enterprises hire more and more people and as wages rise, the pace of peasant enrichment has also quickened. Assuming there are 800 million peasants nationwide, each peasant received on average 59.8 yuan in wages from township and town enterprises, or 15.1 percent of their net income. This sum was 22.2 yuan more than the wages they collected from township and town enterprises in 1984 and accounted for 52.7 percent of their increase in net income, which was 42 yuan. It has become the primary factor behind the increase in peasant earnings.

-- In 1985 township and town enterprises saw their fixed assets increase fastest during the Sixth 5-Year Plan. Statistics indicate that at year end, the gross value of their fixed assets stood at 75.04 billion yuan, up 30.5 percent, or 17.54 billion yuan, compared to a year ago. Their net worth at

year end was 58.97 billion yuan, 32.3 percent, or 14.4 billion yuan, more than the preceding year. Not only has the growth been rapid, but economic benefits have also been outstanding: 1) Every 100 yuan worth of fixed assets in gross value yielded 250.3 yuan in output value, a 9.8 percent increase over 1984's 227.9 yuan; 2) Every 100 yuan worth of fixed assets in gross value yielded 226.4 yuan in earnings, a 14.5 percent increase over 1984's 197.7 yuan. 3) Every 100 yuan worth of fixed assets in gross value yielded 36.4 yuan in profits and taxes, up 6.7 percent over last year's 34.1 yuan. 4) Every 100 yuan worth of fixed assets in net value yielded 46.8 yuan in taxes and profits, up 5.9 percent over 1984's 44.2 yuan; 5) Every 100 yuan in wages yielded 106.9 yuan in profits and taxes, up 8.7 percent over 1984's 98.3 yuan. 6) The enterprises realized profits and taxes totaling 781.3 yuan per capita, up 28.5 percent over 1984's 608 yuan. 7) At 5,246.4 yuan, the per capita output value was 29.2 percent more than the figure a year ago, 4,062.2 yuan. 8) At 4,714.3 yuan, per capita income grew 33.8 percent over 1984's 3,528.2 yuan.

Judging from statistical data submitted by the localities, some notable problems have also cropped up in the development of township and town enterprises in 1985. For instance, the number of township and village enterprises operating at a loss has gone up, from 60,000 in 1984 to 65,000 last year, with losses climbing from 680 million yuan a year ago to 800 million yuan. In some provinces and regions, the profits of township and village enterprises grew marginally and even declined even as their output value rose rapidly. Then there are provinces and regions where they took up an excessive chunk of the capital.

12581

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DOMESTIC TRADE

MA HONG ON HORIZONTAL ECONOMIC LINKAGES IN WUHAN

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 7, 23 Jul 86 pp 7-10

[Article by Ma Hong [7456 3163]: "Horizontal Economic Linkages in Wuhan"]

[Text] In carrying out its pilot projects on wholesale economic reform in recent years, Wuhan has firmly given priority to the development of commodity circulation and transportation to accelerate the fostering of a commodity economy and enhance its economic influence and attraction as an urban center. A web of horizontal economic linkages in all shapes and forms has begun to take shape. According to incomplete data, Wuhan has signed contracts with localities across the nation for 1,916 cooperative projects, established 640 joint economic organizations and cooperative associations, attracted 190 million yuan in outside capital, concluded 6,837 deals in science and technology, imported and exported 3,600 qualified people, and set up 21 Chinese-foreign joint ventures. Horizontal economic linkages in Wuhan mainly take the following forms:

1. Linkages in marketing and trade

One example of cooperation is the multilevel inter-provincial, inter-municipal or interregional joint trading organization. The "trade federation", with its headquarters at the Wuhan Shopping Center, for instance, is a commercial group formed by the voluntary union of 14 large state-owned retail stores in 11 major cities across the nation. Members of the federation distribute jointly, purchase jointly and sell separately, purchase separately and sell jointly, and jointly exhibit and sell their products. Its characteristics are ample supplies, a large variety of merchandise, an extensive scope of business, and economic efficiency, which better enable it to tackle the problems retail stores faced after they were allowed to buy from factories directly: their inability to get hold of brand-name products, on the one hand, and to get rid of popular goods of dependable quality, on the other. The federation has also helped a number of new industrial products gain a niche in the national market within a short period of time. In 1985, member stores of the "trade federation" rang up sales totaling 3.34 billion yuan, earning 230 million yuan in profits, and enjoyed rising prosperity in general. Joint organizations in Wuhan similar to the "trade federation" include the "federation of modern shopping centers," established by the Zhongnan commercial building and 20

modern shopping centers across the nation, and the "joint economic organization" bringing together the Zhongxin Department Store and 18 large department stores in a number of large and medium-sized cities in China. In addition, some state-owned specialized companies have set up interregional economic cooperative organizations for their particular industry or trade. Examples are the economic cooperative group comprising the Wuhan Textile Company and seven cities in major textile-producing areas incorporated in the plan, and the economic cooperative organization jointly founded by Wuhan Municipal Chemical Plant and similar concerns in 12 large cities all over China. For all these organizations, cooperation has paid off handsomely. Within Wuhan itself, some medium-sized stores under a district have also come together in various cooperative marketing arrangements for joint purchase and marketing or joint purchase and separate marketing, thus offsetting the weaknesses shared by medium-sized stores in the past--scarce capital, small markets, a limited assortment of merchandise, and a shortage of goods supply.

Another form of linkage is the nationally-oriented small commodity market created in Wuhan as it sought to open up its three towns. Through the small-commodity market, it has attracted businessmen to do business there, broken down barriers between different systems of ownership, brought about joint production and sale in a multitude of forms between individuals, between individuals and collectives, and between individuals and state-owned enterprises. Men's and women's clothing, children cotton knitwear, and all manner of plastic sandals produced in such places as Hainan, Jiangsu, and Leqing, Zhejiang, account for 80 percent of the sales of the three markets on Hanzheng Street (Small Commodity Street). Known as the home of toothbrush, Hangjixiang in Yangzhou, Jiangsu, produces over 200 million toothbrushes annually, 50 percent of which sold through Hanzheng Street. Over the past 3 years, more than 1,000 industrial and commercial enterprises in 20 provinces and municipalities and 40 counties have exhibited or marketed more than 5,000 categories of commodities on Hanzheng Street, doing 40 million yuan worth of business. As trading expanded, 204 individual households from the Hanzheng Street market raised 70,000 yuan to open a joint company which imported from 20 municipalities and counties a variety of clothing, lace, sandals, and balloons. The merchandise would then be sold by the households separately. The small-commodity market at Hanzheng Street achieved sales of over 500 million last year alone, more than 10 percent of the municipality's total retail sales.

2. Linkages in Communications and Transportation

Wuhan offers long-distance bus service and freight transport service in conjunction with other provinces and municipalities on the basis of equality and mutual benefit. As a result, travelers and merchants are provided a convenient service, traveling time is shortened, and the pressure on the rail system is reduced. In recent years, Wuhan and 27 cities in five provinces--Henan, Jiangxi, Anhui, Hunan, and Jiangsu--jointly started 37 passenger transport routes and teamed up with 12 provinces and municipalities including Beijing, Shanghai, Guangdong, Shaanxi, Henan, Anhui, Jiangsu, Zhejiang, and Hunan to launch 20 scheduled truck routes. Goods weighing under 3 tons is delivered at a specified time at a specified place. Because of the development of road freight transportation, the Wuhan Railroad Bureau has

suspended two freight trains and reduced the number of freight transport stations from 27 to 14. Consequently, freight trains for long-distance truck line haulage could carry an additional 3.4 million tons of cargo. Thus the social and economic benefits of economic linkages are clear.

In another instance, cooperation takes the form of a vigorous effort to offer total coordinated transport. In July 1984, under the leadership of the coordinated transport companies of Wuhan, Chongqing and Nanjing, the Changjiang Coordinated Transport and Joint Operation Corporation was set up in Wuhan. The corporation offers a package-deal type of services to cargo owners. It takes care of a consignment from beginning to end and its fee schedule is determined by the distance traveled. It makes things easy for cargo owners and is greatly welcome by the public. Currently straddling 9 provinces and 1 municipality and involving 18 units, the corporation has definitely been useful in organizing direct shipment on Changjiang's major and minor tributaries, in transshipment between land and sea, and in seaborne through transport. It handled 9.5 million tons of cargo last year.

A third form of linkage is to pool social resources from all quarters to develop transport. In road transport, buses have joined the passenger transport market. Of the 160 long-distance scheduled bus departures from the city every day, 92 involve nonspecialized vehicles. Of the city's current fleet of 26,405 trucks, 23,188, are owned by collectives, individuals, and joint households, and other non-specialized units. They constitute 87.6 percent of the total fleet and account for 41.8 percent of the total volume of road haulage in the municipality. Turning to water transport, as many as 566 ships owned by individuals were registered with the municipality as of late last year. As part of opening itself up to society, the port last year played host to 3,248 ships belonging to individual and joint households from other parts of the country, and loaded and unloaded 1.111 million tons of merchandise. As for rail transport, apart from the Wuhan Iron and Steel Complex, there are 321 special rail routes in Wuhan. Since the city began making them available to society last year, 49 routes, or 15.3 percent, have been put into service, handling 840,000 tons of cargo for 370 customers. In air transport, the Wuhan Airline Company was jointly established by Wuhan and the Air Force in September 1984. It leases air force transport planes for a fixed fee to transport perishable goods and expensive products all over the country. There had been 201 such flights as of late 1985, carrying 741 tons of cargo.

3. Linkages in Production and Business

First there is inter-sector, interregional production cooperation through open bidding. Wuhan is one of the first cities in the nation where enterprises adopted open bidding in production. Breaking with an outdated rule that prohibited enterprises from acquiring goods and services from outside its area or sector, the Wuhan Washing Machine Plant in 1983 invited tenders nationwide. Over 700 factories across the country submitted bids, of which 60 were accepted involving a total of 47 projects. Through its cooperation with the factories, the Wuhan Washing Machine Plant succeeded in lowering the costs of its machines by almost 10 yuan apiece. It manufactured 140,000 units that year and made a profit of 1.22 million yuan, up 170 percent over 1982. Of its

profit, 40 percent could be credited to public bidding. In 1985, the plant built its own production lines based on imported models--again through public bidding, becoming one of the nation's preeminent washing machine manufacturers. So far 66 Wuhan enterprises, by inviting and submitting tenders, have entered into economic association with over 1,300 enterprises in the nation's 27 provinces, municipalities, and autonomous regions, enriching themselves directly by 16.4 million yuan.

Linkage is also effected through the establishment of joint organizations in all forms and shapes. Last November, 11 iron and steel works from the municipality's metallurgical industry merged with Wuhan Iron and Steel Complex. While the complex is responsible for centralized leadership, planning, and tax payment, the 11 works carry out independent accounting, are accountable for their own profits and losses, and seek to grow on their own. In the several months since merger, the complex has sent experts to visit the factories and conduct in-depth studies and investigations, convened 11 business coordinating conferences of a general nature and 15 special conferences, promptly solved the most glaring production problems, diligently worked out a plan for 1986, reshuffled the leadership at a number of enterprises, and tentatively set a direction for development. At the same time, the complex has extended its own product line and upgraded its machining. In another example, the Changnan Machinery Engineering Company, whose senior partner is the Wuhan Turbogenerator Factory, united almost 20 enterprises in Shanghai, Nanjing, and Jiangxi in negotiations with foreign firms on the manufacture of hydraulic turbines. Five projects won bids with a total price tag of \$4 million.

Besides the above-mentioned, there are other forms of cooperation in Wuhan--between industry and trade, between agriculture and trade, between the war industry and local enterprises, and between municipalities and counties. In addition, there are cooperation in science and technology and the pooling of capital. Wuhan's fledgling scientific and technical market, for example, has established cooperative relations with 160 cities across the nation, raising the utilization rate of the research achievements of research institutions, colleges, and universities in the area from 10 percent in the past to 50 percent.

Horizontal economic linkages have grown healthily and rapidly in Wuhan because the municipality firmly implements decisions by the CPC Central Committee and the State Council relating to the restructuring of the economic system. It has a clear guiding philosophy and has taken strong effective measures.

1. On guiding philosophy. Noting that the city is centrally located where the east meets west and north meets south, Wuhan's government decided on the strategy of giving priority to the development of commodity circulation and transportation as early as 1984. Later they put forward this strategic vision: While basing itself firmly on central China, Wuhan must also serve the entire nation and gradually build up a five-dimensional economic and technical cooperation network revolving around itself. The goal is to transform Wuhan into an open, multi-functional urban economic center. The five dimensions are: join forces with the three suburbs and four counties under its jurisdiction to accelerate the economic integration of urban and rural areas;

establish an economic and technical cooperation network in the Jiangnan plain; economically develop the Changjiang basin in cooperation with large and medium-sized cities along the river such as Shanghai, Ningbo, and Chongqing; actively cooperate with central China, the northwest, and the southwest to serve the nation; team up with Hong Kong and Macao and attract foreign capital. The municipality's leading authorities infuse this philosophy into their day-to-day work, on the one hand, and assiduously provide enterprises with the conditions for horizontal economic association, on the other.

2. Make reform the top priority and push horizontal economic cooperation as hard as circumstances permit. In 1984, as the scope of command planning was gradually reduced while that of guidance planning and market regulation expanded, enterprises were forced to look horizontally for ways to grow. Responding to this need, the Wuhan municipal government reformed its system of commerce administration in August by abolishing the old system of "one office, two bureaus" which had led to fragmentation, and setting up a commerce management commission to provide centralized management and unified guidance for commerce in society. The commerce, posts, and telecommunications agencies in the municipality used to take orders from three ministries and one bureau at the national level as well as local departments concerned, which had seriously impeded the development of horizontal linkages and the full exploitation of the potential of existing transportation facilities. To end this fragmentation, the municipal government established a transportation commission in January 1985 and, later in the year, appointed to it responsible comrades from such units as the Changjiang Shipping Office, the railroad bureau, and local transportation and telecommunication agencies, thereby paving the way for a coordinated drive to make the most of Wuhan as an urban center and communications hub.

After the giant enterprise, Wuhan Iron and Steel Complex, was turned over to local control, it was not absorbed into the old system. Instead Wuhan abolished the municipal metallurgical bureau and put 11 local iron and steel plants under the complex's centralized management, resulting in a form of association where a large enterprise provides the leadership. Because the city wasted no time in taking these measures, the momentum for horizontal economic associations is getting stronger and stronger.

3. Review experience promptly and carry out endless pilot projects to ensure the healthy development of horizontal economic linkages. The municipal economic commission and commerce commission called separate conferences last February to discuss horizontal economic linkages, review the experience and lessons of recent years, and make suggestions for the further development of such linkages. At the beginning of the year, they initiated an experiment at the Wuhan Municipal Refrigeration Equipment Industrial Company to find a way to establish enterprise associations. With the Wuhan Refrigerator Plant and the Hubei Chemical Industrial Machinery Factory as backbone, and on the basis of last year's booming sales, they set up a joint company made up of 26 units. Its flagship product is the refrigerator. This is basically what they have learned about setting up enterprise associations. When units get together to set up an association, their aim should be to expand production and meet mutual needs. It is a voluntary association founded on the basis of equality and mutual benefit. They must do away with fragmentation and cooperate at

several levels. They are equal partners and should coordinate their efforts. No additional agency should be set up to supervise them. Local governments at all levels should take the initiative to foster economic linkages and create a favorable external environment. On the basis of these recommendations, the municipal economic commission drew up the "Wuhan Enterprise Association Group" and "Some Views on the Establishment of Enterprise Associations Through" and "Some Views on the Establishment of Enterprise Associations Through" to avoid hasty, haphazard development.

Our study shows that Wuhan should pay close attention to the following aspects as it seeks to consolidate horizontal economic linkages:

First, about marketing and trade, it should step up joint wholesale by building on its present achievements. As an urban center and in order to enhance its economic impact, Wuhan must exploit its advantageous geographical location--by entering into all kinds of joint wholesale arrangements with localities throughout the nation. It must play a more important role as a goods distributing center and attract foreign investment to set up a wholesale center for their products. On the same note, it must endeavor to distribute its industrial and agricultural byproducts more widely to every part of the nation, particularly provinces, regions, and cities, particularly the southwest and northwest through close cooperation between industry and trade, and between agriculture and trade.

Second, concerning communications and transportation, Wuhan should further open up Changjiang transport, encourage well-equipped local firms to make their services available to society at large, and bring about sea-and-river coordinated transport. Besides the Beijing-Guangzhou Railway, the Yangtze River and China's eastern coast is another major artery of communication between the north and south and has immense potential. Wuhan can connect central China and the interior with the coast through Changjiang. It should develop coordinated transport services with Ningbo. It should also endeavor to promote similar coordinated services with other coastal ports. Thus, interior commodities can be shipped directly to various ports along the coast via Wuhan, and vice versa.

3. As far as industrial production is concerned, Wuhan should go out of its way to foster the kind of economic associations that draw most of their vitality from large and medium-sized key enterprises and revolve around flagship products. The scope of these groups should be broadened to cover the entire nation. Efforts should be made to expand the output of flagship products, improve product quality, tap the potential of existing enterprises, and increase Wuhan's share of the national market.

4. At present China is in a transitional stage as it seeks to restructure its economic system. Because of traditional inertia and the fact that the old way of doing things has become our second nature, we must do a good job in propaganda and organization if we are to strengthen horizontal economic linkages. If we lack propaganda and organization activity, the market, horizontal economic linkages will barely inch forward and a golden opportunity for economic transition will be lost. But enterprise associations should be founded on the basis of voluntarism. They can only be nurtured and prodded into existence one by one. Coercion or imposition by administrative fiat should be avoided.

DOMESTIC TRADE

HORIZONTAL ECONOMIC LINKAGES END FRAGMENTATION, ISOLATION

Beijing RENMIN RIBAO in Chinese 3 Aug 86 p 2

[Article by Gai Weisheng [5556 3262 3932]: "Report on the Development of Horizontal Economic Linkages"]

[Text] A gratifying phenomenon has appeared in China's economic life: the rapid growth and gathering momentum of horizontal economic linkages. As linkages flourish, they have dealt a heavy blow to the old order of fragmentation and begun to end the isolation with which people engage in economic activities.

From what one observes, these are some of the new trends in the development of horizontal economic linkages:

Groups linking large enterprises have mushroomed, facilitating the reform of the industrial management system. Today, a host of groups or joint organizations made up of enterprises and revolving around high-quality brand-name products have sprouted across the nation. Among them are the No 1 Auto Works Group, the No 2 Auto Works Group, Jialing Group, Guizhou Electronics Group, Shenzhen Electronics Group, the Northeast Electric Economic and Technical Group, Mining Equipment Group, which is based on the Leyang Mining Machinery Plant, and the "trade federation" consisting of 14 large department stores in 11 cities. All these groups radiate an intense vitality. With large, key enterprises as their core, they attract numerous small and medium-sized enterprises, scientific research and design units, and colleges and universities. They transcend administrative divisions and organize production and operations on an inter-regional, inter-sector, and inter-industry basis. Indeed, they are moving toward offering complete integrated lines of products and a full range of services.

The emergence of large enterprise groups has freed enterprises from the straitjacket of fragmentation and past administrative subordinate relations, paving the way for fundamental changes in China's industrial management and planning systems. It is conceivable that future industrial management in China, including planning, investments, and goods and materials supply, will no longer depend on contacts with myriad separate units but be effected through hundreds of large enterprise groups.

A stock ownership economy has been born, a useful experiment in the reform of ownership structure. State-owned enterprises, collective enterprises, and

township and town enterprises team up with one another as they forge horizontal economic linkages. Their ownership systems are different, but they invest in and penetrate one another, bringing to an end the old system in which there was only one form of ownership in an enterprise. The ownership of an enterprise is made up of the sum total of its shares. Profits are distributed among share holders in accordance with the size of their investments. Because each share has an actual owner and every party is interested in the return on his investment, enterprises are encouraged to think long-term and act rationally. This form of linkage at present mainly manifests itself in integrated organizations made up of small and medium-sized enterprises. Examples are the Tianqiao Department Store Co, Ltd, in Beijing, Yangzijiang Pump Co in Wuhan, and the Dongfang Plastic Joint Co in Shijiazhuang. Although such joint organizations are few and far between as yet, they represent a trend-setting experiment in the separation of ownership and management.

The integration of scientific research and production has been accelerated and the conversion of technical achievements into productive forces has been expedited. Amid horizontal economic linkages, over 10,000 organizations uniting scientific research with production have appeared all over China. The integration of science and technology, on the one hand, and production, on the other, is currently shifting its focus from the transfer of single technical achievements and the popularization of new technology to the development of a complete line of technology and contracting for engineering projects, from joint research and product development to the transformation of traditional industries and the development of new ones, from bilateral cooperation to multi-disciplinary cooperation. Scientific research, economics, and technology are in the process of being integrated. What emerges will be a formidable functional system.

There has been rapid progress in interregional, inter-municipal economic and technical cooperation, promoting linkages between enterprises. As of early May this year, 16 interregional economic and technical cooperation zones had come into existence, such as Changjiang Basin Economic Cooperation Association, five provinces and regions in the southwest, along with over 28 economic cooperation zones within a particular province or region, and joint groups linking cities together. In addition, cities in different provinces have been entering into friendly-city arrangements. The question now is that even as regions and cities cooperate and establish ties with one another, they must fully honor enterprise autonomy and continue to work hard for inter-enterprise linkages. They should open themselves to units and localities outside cooperation zones to make them even more dynamic. Five cities, including Changzhou, Fuzhou, Nanchang, and Pingdingshan, did a good job in horizontal linkage recently. Specifically, their mayors took the lead by "setting the stage," acting as go-betweens, making guarantees, and negotiating projects that might be undertaken jointly. They then let the factory managers take the "spotlight" and sign the contracts and allowed enterprises choose their own partners. In so doing inter-municipal cooperation was brought down to the enterprise level.

There has been new progress in urban-rural integration, spurring economic unification of urban and rural areas. Urban enterprises have spilled into

rural areas and have established linkages with township and town enterprises, fueling rural economic growth. Linkages usually take this form. Urban industries supply raw materials to the countryside such operations as processing and the making of parts and components, while township and town enterprises provide labor, capital, and sites, and set up bases for the production of agricultural and sideline products. This kind of linkage allows each to exploit its own strengths and supplement each other's weakness, promoting simultaneous urban and rural economic development.

At present, there also exists in horizontal economic linkages a number of problems yet to be resolved:

First, excessive administrative interference remains the biggest barrier to the development of horizontal economic linkages by enterprises. Second, existing planning and financial systems constrain inter-regional, inter-sector linkages. Third, the distribution of benefits among parties involved is not balanced, adversely affecting the consolidation and development of linkages. Fourth, there is no policy of incentives with regard to integration between scientific research and production at the higher level. These four issues must be gradually worked out as linkages become more and more far-reaching.

1983

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FOREIGN TRADE AND INVESTMENT

ANHUI'S EXPORTS OF MACHINERY, ELECTRONICS PROMISING

Hefei ANHUI RIBAO in Chinese 19 Jul 86 p 1

[Article by Li Li [2621 0500]: "An Upward Trend Appears in the Machinery and Electronics Exports in the First Half Year--Anhui's Machinery Departments Give the 'Green Light' to the Production of Export Goods"]

[Text] In the first 6 months of 1986, an upward trend appeared in Anhui's self-managed machinery and electronics exports which, by the end of June, earned \$1.42 million in foreign exchange, a 1.34-fold increase over the corresponding period of 1985. Fairly large increases have been recorded in the export volume of all major export products.

Since the beginning of 1986, machinery departments throughout Anhui Province have conscientiously implemented the pertinent documents of the State Council, concentrated on the self-managed exports of machinery and electronics, and given the "green light" in all aspects to export production.

While stabilizing the exports of traditional machinery and electronics, Anhui's machinery departments have also paid attention to introducing new export products to seize foreign markets. Through efforts, A5-280 multi-purpose tool-cutting machine (household lathe) has now become one of the hot-selling items of Anhui's self-managed machinery and electronics exports. It has found an initial sale on the international market and its supply has begun to fall short of demand. The provincial machinery department has drawn up a development plan for this product to increase its production and further expand its export volume. In addition, they have also expanded the overseas sales of new products such as copper valves and high-efficiency tool designs and the exports of products processed according to designs or samples sent by foreign customers. Some of them have begun to earn foreign exchange. In the field of exports, the provincial machinery and equipment import and export corporation strives to change the situation in which one commodity is sold to one customer on one market.

12302

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FOREIGN TRADE AND INVESTMENT

JOINT VENTURES PROLIFERATE IN QUANZHOU

Beijing GUOJI SHANGBAO in Chinese 26 May 86 p 2

[Article by Zhongxinshe: "Rapid Development of Joint Chinese-Foreign Ventures in Quanzhou. Another Seven Start Up During First Quarter"]

[Text] During the first quarter of 1986, another seven joint Chinese-foreign ventures and cooperative enterprises received approval to start up in Quanzhou City in Fujian Province.

Statistics show a total investment by these enterprises of 199 million yuan renminbi, including a foreign investment of more than \$41 million. Eighty-seven enterprises have gone into production. Investment in them totals 99 million yuan with a foreign investment of more than \$19 million.

Small enterprises predominate, most of them with an investment of less than 1 million renminbi. There are more than 20 businesses producing electronics, clothing, furniture, building materials and handicrafts. Were all these enterprises in operation, output value would increase by more than 300 million yuan. Output value of enterprises that went into production during 1985 is more than 52 million yuan and value of products exported is \$7.4 million. The first joint Chinese-foreign venture was the Quanzhou Artificial Flower Plant Ltd, a 1980 joint venture with Hong Kong. As of the end of 1985, this plant had made profits of 1.41 million yuan, or 2.78 times the original investment. Once the 5-year joint contract period was up, at the request of the Hong Kong party, both parties agreed to extend the contract period 10 years. All of the work gloves produced by the Quanzhou Labor Goods Company Ltd and the Quanzhou Gloves Co Ltd, joint ventures between China and Hong Kong using Chinese raw and processed materials, were exported for foreign exchange earnings of \$3 million during 1985.

Quanzhou City has also energetically developed industries for the processing and assembly of goods brought in from outside China. During the first quarter of 1985, 388 contracts were signed, valued at more than \$7.8 million, and earnings of \$2.53 million were made in fees, an 89.4 percent increase over the same period in 1985. Between 1979 and the present, Quanzhou has had a net income of more than \$32 million from the processing and assembly of goods brought in from outside China.

9432

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FOREIGN TRADE AND INVESTMENT

FUJIAN'S USE OF FOREIGN CAPITAL REVIEWED

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese 14 Jul 86 p 25

[Article by Fujian correspondent Wu Guinan [0702 2710 0589]: "Results Achieved, Troubles Exist, and Greater Efforts Needed--On Fujian Province's Use of Foreign Capital"]

[Text] Splendid Results Achieved

During the "Sixth 5-year Plan," Fujian Province approved contracts for the use of over \$800 million in foreign capital, of which, over \$300 million was actually used; it also approved contracts for nearly 700 joint ventures, cooperative enterprises, and foreign-funded businesses, of which, 360 have already opened. In the first half of 1986, it signed another group of new contracts for the use of foreign capital.

The use of foreign capital has played a definite role in the economic and technological progress of Fujian Province. I learned during the interview that it is mainly as follows: 1) Compensates for the shortage of construction funds. Fujian Province has improved investment environment by combining self-pooled funds and the use of foreign capital to concentrate energies on strengthening capital construction in energy, communications, telecommunications, ports, etc. For instance, the Fuzhou Airport has been rebuilt, the Xiamen Airport newly built, Fuzhou's Mawei port rebuilt, Xiamen's Dongdu port newly built; Fuzhou and Xiamen have each imported a 10,000-channel program-controlled telephone exchange board and newly built a number of guesthouses. At present, international loans are being used to build the Shaxikou Hydroelectric Power Station and the Shunchang Cement Plant. During the initial period of opening up, Fujian Province's infrastructure was very poor, transportation very inconvenient, communications difficult, and lodging conditions also poor. Some foreign businessmen criticized sharply: "You are talking about opening up and I feel as if I'm in exile--hard to get in or out." Now the situation has changed considerably. There are regular flights between Hong Kong and Fuzhou and Xiamen. New international air routes have been opened. Direct-dial telephone service is available for all large cities in China and major cities in the world. Foreign businessmen remarked happily: "Now there are conditions for investment." 2) For importing a batch of advanced technological equipment. The use of foreign capital has accelerated the technological transformation of old enterprises and the

renewal and updating of products and increased enterprises' ability to export goods and earn foreign exchange. Collision avoidance radar and marine radio communications equipment, produced by the Xiamen Shipping Electronic Instrument Plant which is a Chinese-foreign joint venture, have the advanced level of the 1980's and are already in use by many departments. 3) For studying the modern management knowhow of Chinese-foreign joint ventures. Advanced management knowhow has provided many useful experiences for the urban reform of economic structure in inland areas. 4) Joint ventures, cooperative enterprises, and foreign-funded businesses in operation have all achieved definite economic results and both Chinese and foreign investors have gained direct benefits, thus increasing the confidence of outside investors.

Quite a Few Troubles Remain

As I understand, Fujian Province's use of foreign capital is a new task which began only in 1979 and no significant progress had been made until the last 2 years. Rapid progress has been made recently, causing many troubles to crop up. For instance:

1. As the use of foreign capital expands in scale and scope, more departments become involved; since internal economic systems have not completed fundamental reform, much confusion has arisen. Some foreign businessmen have to make several trips to take care of just one thing. Chen Guangyi [7115 0342 3015], new secretary of the provincial CPC committee, once criticized this.

2. Since the problem of jurisdiction over joint ventures, cooperative enterprises, and foreign-funded businesses remains unresolved, the supply channels of raw materials are clogged, creating many inconveniences for enterprises.

3. Management falls behind. The use of foreign capital lacks overall planning and overall guidance is incomplete. Some foreign loan contracts are signed even before projects are decided. As a result, borrowed money can only be deposited in the bank. When establishing Chinese-foreign joint ventures, some projects are not handled according to set procedures and contracts are signed perfunctorily, resulting in failure to fulfill contracts.

4. Among approved Chinese-foreign joint ventures, some projects, on which contracts were signed a long time ago, have not been carried out because Chinese joint venturers fail to provide supporting funds or because foreign joint venturers fail to provide capital in the amount and at the time specified in the contract.

In addition, the structure of projects using direct foreign investment is not completely rational. For instance, there are too many service-oriented, finishing assembly, processing, and general technological projects.

Continuous Efforts Needed

While talking about the "Seventh 5-year Plan" not long ago, Hu Ping, provincial governor, suggested that "\$1 billion of overseas and foreign

capital be used regardless of the scale." He also said: "According to the economic foundation and development goals of Fujian Province, the orientation of the readjustment of investment structure for the "Seventh 5-year Plan" is to continue to strengthen major construction projects including energy, communications, raw materials, science and technology, and education, properly increase input in agriculture, reduce investment correspondingly in the general processing industry, use more funds for the technological transformation of existing enterprises, increase the proportion of renovation and transformation investment in local fixed-asset investment, exercise proper control of non-productive construction investment, and strictly limit the construction of hotels and buildings." In my opinion, these remarks are also applicable to the use of foreign capital and can serve as the overall guiding ideology for the use of foreign capital. It is reported that the departments concerned, after summing up experiences, pointed out that when using foreign capital it is necessary to have the "standpoint of economic results" and that it is timely to "adhere to the principle of doing what one is capable of doing."

To fulfill the foreign capital utilization plan of the "Seventh 5-year Plan," Fujian Province, in my opinion, should make still greater efforts. First of all, the departments concerned should draw up detailed plans for foreign capital utilization, smooth out internal relations, and solve the problem of jurisdiction over joint ventures, cooperative enterprises, and foreign-funded businesses.

Second, it is necessary to adhere to the principle of multiple channels and forms in foreign capital utilization. While absorbing as much direct foreign investment as possible, we should strive to obtain low-interest loans from foreign governments and raise funds directly from international money markets through export credit, the issuance of bonds, bank credit, compensation trade, and renting and leasing businesses.

Third, with regard to projects using direct foreign investment, more small and medium-sized projects which yield quick results should be carried out on the condition that they can balance their foreign exchange income and expenditure on their own. Since Fujian is abundant in mountainous and marine resources, great efforts should be made to import, through the use of foreign capital, improved strains and breeds and carry out more development-oriented projects.

Fourth, the use of foreign capital should seek economic results and strive for three combinations: The use of foreign capital combined with the improvement of ability to earn foreign exchange through exports; the use of foreign capital combined with the transformation of old enterprises; and the use of foreign capital to import advanced technology and equipment combined with assimilation and innovation.

12302

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FOREIGN TRADE AND INVESTMENT

HEBEI URGED TO DEVELOP LOCAL EXPORTS

Importance of Barter Trade

HEBEI JINGJIANG HEBEI HIBAO in Chinese 18 Jul 86 p 2

[Article by Shang Wenxia [1424 2429 0204]: "Make Barter Trade a Priority in Export Work"]

[Text] Many provinces and municipalities in the nation have set up foreign trade companies in recent years with the approval of the agencies concerned. Hebei Foreign Trade Company, for instance, is the province's foreign trade company founded with the permission of the provincial government and the MINISTRY of Foreign Economic Relations and Trade [MFERT]. How should these companies operate?

First, they must push barter trade as one of their main lines of business. As the nature of the foreign trade system becomes more far-reaching by the day, the central government has been encouraging local foreign trade companies to work hard to develop barter trade. Government regulations allow local foreign trade companies to secure their own source of merchandise and conduct their own business within the framework of a unified foreign policy provided that they assume responsibility for their own losses and profits, balance their books, and keep their own accounts. The companies are also allowed to enter into negotiations with foreign nations if they obtain clearance beforehand from the MFERT for their import-export shipping lists. According to pertinent regulations, China's major barter trade partners at present are the Soviet Union, Eastern Europe and Third World nations. Hebei is relatively well placed to develop barter trade with these countries. First, it has an ample supply of goods. Second, many products from those countries meet the needs of agricultural and industrial production in the province and the public's daily needs. Third, barter trade between Hebei and the Soviet Union and Eastern Europe can make use of containerized transport via the continental land route. It is safe and convenient and takes little time. The costs are low and economic benefits are high.

Barter trade is a comprehensive form of foreign trade. It covers an extensive area and can be horizontal as well as vertical, domestic as well as foreign. An analysis of the commodity mix shows that it includes industrial and mineral products as well as agricultural byproducts and native produce. Specialized

foreign trade companies, therefore, may find it rather difficult to do barter trade. As a comprehensive foreign trade enterprise, Foreign Trade Company is in a strong position to determine what to return for what.

Barter trade is a common form of international trade and accounts for one third of total global trade. For the provincial foreign trade company, however, it is a new line of business in which it lacks experience. For this reason, the company should tackle the straightforward trade first and then the more difficult. For starters, it should handle trade in small quantities to test the waters. It should gradually accumulate experience and pave the way for comprehensive barter trade in the future. As long as we persevere in reform and development, barter trade in Hebei has a bright future and the provincial foreign trade company will also make rapid progress in its export work.

Promoting Export With Import

Shijiazhuang HEBEI RIBAO in Chinese 23 Jul 86 p. 1

[Article by Shang Wenxia [1424 2429 0304]: "Use Import to Promote Export"]

[Text] As foreign trade develops apace and local foreign trade companies expand exports, there will be more and more local foreign trade companies. Now we use local foreign exchange in a systematic way and how we use import to promote export are questions that should be worked out.

Nowadays using import to nurture export has become an important trend in expanding exports in some nations in the world. In Hebei, however, import and export are divorced from each other; there is no coordination between the two. As a result, import has not been able to promote export. A foreign trade company, for instance, spent tens of thousands of dollars in foreign exchange to pay for imports last year but did not have a single deal to show for all the money it laid out.

How do we go about using import to promote export and develop exports? First we must correct the guiding idea behind import. What are the materials, and equipment we import today, whether hardware or software, so in order to upgrade our technology, develop national products, and improve product quality. While part of the output will be sold on the domestic market, our ultimate aim is to crack the international market, export, no import. We import so that we can increase our exports in the future. As they draw up their shopping lists, the relevant departments at levels responsible for import using foreign exchange should consider whether or not the import in question will help improve our exports. We should expand the output of goods that sell well in overseas markets, strengthen the related construction of export commodity production, promote the development of new commodities, and boost exports. In a word, foreign exchange should be given to items capable of turning out exports and promoting exports.

Second, the centralized management of import using local foreign exchange should be strengthened, with the local foreign trade company being put in overall charge. At present, import using local foreign exchange is rather chaotic; a multitude of units are allowed to deal with foreigners on their own. This situation must be stopped to prevent an outflow of profits. Specialized import and export companies should devote themselves to export and import using central foreign exchange. General leading agencies responsible for import using local exchange must set clear priorities in the light of actual circumstances and work out a unified plan on the use of foreign exchange ahead of time so that the local foreign trade company has plenty of time to pick overseas customers, get in touch with goods suppliers in the nation and schedule business talks to promote export through import.

Third, local foreign trade companies should consolidate their ties with foreign customers and explore the possibility of using import to promote export. When circumstances permit, the two sides may sign an agreement under which the foreign party commits itself to marketing Chinese local exports abroad.

Need To Develop New Products

Shijiazhuang HEBEI RIBAO in Chinese 3 Aug 86 p 2

[Article by Shang Wenxia [1424 2429 0204]: "New Product Development Essential to Expanding Exports"]

[Text] It takes more than customers, markets, and an aggressive way of doing business to develop export trade. Even more important is to secure the supply of popular products. Given the gap between commodity supply and demand, China's exports for many years consisted of whatever the government managed to "squeeze" from or "scrape" out of means of production and livelihood. Foreign trade companies in the ports scramble to grab the limited supplies available, resulting in frequent conflicts. It is not advisable for local foreign trade companies to join this scramble. Instead, they should devote themselves to the development of new products and open up local export trade. In so doing they can avoid conflicts with specialized foreign trade companies, on the one hand, and promote the development of local agricultural and industrial production, on the other.

Local foreign trade companies are totally qualified to develop new products. According to incomplete data, the types of commodities exported by Hebei in 1985 account for just about 10 percent of the province's full lineup of industrial, mineral, agricultural, sideline, and native products. There will be a continuous stream of new products providing an ample supply of goods for export as production develops, science and technology advance apace, the restructuring of the economic system gains depth, and enterprises become more autonomous with heightened initiative in production. One example is Weili, a new kind of beverage developed by the province in recent years. Supported by relevant agencies and actively marketed by the province's local foreign trade company--Hebei Xingji Foreign Trade Company, the beverage broke into the Japanese market last year and filled a gap in our soft drink industry.

Forecasts by the parties concerned indicate that provided we do our work well, the product stands a good chance of making it big.

How do we develop new products for export? First, we must look at new products afresh. Basically a product can be new internally or externally. In other words, it can be new in substance or in style. There is a limit to how new a product can be substantively. Stylistic novelty, on the other hand, knows no bounds. As far as ingredients are concerned, many of Hebei's industrial products are not inferior to their foreign counterparts. Some, in fact, are better. But they come out short on appearance; the finishing is crude and their style remains the same year after year. They have difficulty breaking into the international market and even if they manage to do so, they do not fetch high prices. The rhythm of the modern world is quickening in every way. The clothing, food, housing, and transportation needs of people are ever changing. We cannot just stand still while everything else around us is racing ahead. We must develop new products continuously, combining the drive to develop substantively new products with a push for stylistic novelty.

Second, we must redouble our efforts to publicize our products abroad. Reportedly the Weili drink is now a household word in Japan, known to children and women alike. This is inseparable from the all-out advertising campaign launched by Boka Company of Japan, whose advertising budget alone amounts to 400 million yen. Hebei cannot afford that at the moment, but it is something we must do. We must draw up a marketing strategy for products which meet export requirements and have found to have export potential through tests, and step up publicity systematically.

Third, we must take the collection and utilization of economic information and data seriously and, through them, understand the present international marketplace, forecast its future, and work out appropriate policies and measures. We should strengthen our contacts with Chinese representatives abroad, make the most of Hebei personnel stationed overseas, and set up an information network province-wide to provide factories and enterprises with new information and guide the development of new products.

12581

CSO: 4006/1295

FOREIGN TRADE AND INVESTMENT

EXPORT DRIVE BY LIAONING INCREASES FOREIGN EXCHANGE

Guangzhou KAI FANG [OPEN POLICY] in Chinese No 7, 8 Jul 86 pp 23-25

[Article by Cao Zenghuo [2580 1073 0735]: "Liaoning Strategizes to Expand Exports and Earn Foreign Exchange"]

[Text] Liaoning Province is an old industrial base in China, producing vast quantities of native, marine, petrochemical, and metallurgical products, minerals, electrical machinery, and arts and crafts. Of its current lineup of over 2,000 exports, steel-cored twisted aluminum wires, radial drilling machines, super-high precision lathes, aviation gasoline, paraffin wax, ginseng, pilose antlers, mink furs, and prawn are all best sellers in the international market. During the Sixth 5-Year Plan, Liaoning exports netted \$8.4 billion in foreign exchange, \$4 billion more than in the Fifth 5-Year Plan. Today Liaoning exports are popular in 138 nations and regions.

Still, the province's present capacity to export and earn foreign exchange has a long way to go before it meets the needs of the times. An old industrial base built in the First 5-Year Plan, Liaoning boasts a full range of industries and has formidable technological prowess. For a long time its gross value of industrial and agricultural output was the highest in the nation after Shanghai. In 1983 it was overtaken by Jiangsu and ranked third. As for exports, it was only the fifth largest province in the country, behind Jiangsu and Shandong. Too few Liaoning factories produce for the foreign market: While the province has over 20,000 enterprises of all kinds, barely 1,200, or 6 percent, sell their products overseas. In 1985, Liaoning's gross value of industrial and agricultural output was about 114.6 billion yuan, only \$1.7 billion, or 4.65 percent, of which were export earnings, a rate lower than the national average.

To increase exports and foreign exchange earnings, the Liaoning CPC Committee and government early this year clearly put forward the policy of making export and the earning of foreign exchange the centerpiece of the open door policy. It is projected that exports by the province will reach \$3.6 billion by 1990, more than double than in 1985. This is a magnificent goal the achievement of which, however, will be an arduous undertaking.

At a time when we must step up exports to earn foreign exchange, the world economy is still in a recession and developed nations in the West have been

resorting to protectionist trade policies one after another. All this combines with the collapse of oil prices in the international market to make for a grim situation for Liaoning. It should consider adopting the following policies both in the short run and as a long-term economic development strategy:

1. Adjust the Export Commodity Mix

The major exports of Liaoning and Dalian are petroleum, edible oil, foodstuffs, mineral products, and other primary products. Refined oil alone accounts for half of all Liaoning's exports that originate within the province and is of decisive importance. But oil prices have fallen precipitately on the international market, with the price of crude oil plummeting from \$37 per barrel to almost \$10. This will affect the province's overall export picture. Influenced by the oil slump, the prices of minerals, edible oil, and foodstuff will also sag. Besides, the new high-tech revolution has changed the composition of industrial raw materials, altering the demands of the world market for raw materials. This too will directly impact the export of raw materials and primary products, which make up about 40 percent of Liaoning's total exports. For these two reasons, it will be very difficult for Liaoning to continue to rely on traditional commodities. For one thing, less of them will be exported or exportable. Second, even when it manages to export a piece of merchandise, it may do so only at a loss and some commodities may actually incur heavy losses. This scenario leaves it no choice but to adjust our export commodity mix.

Prices in the world market are such that exporting one ton of roasted peanuts earns as much foreign exchange as exporting three tons of shelled peanuts. Price differences between various types of oil are even more striking. Suppose the export price of crude oil is 1, then the price of refined oil is 5 and that of petrochemical products is 7. It can thus be seen that the same product fetches different prices depending on the form and extent of processing. What it should do now is to gradually shift from the export of primary products to the export of manufactured and upscale products, from rough machining to finish machining in order to add value to its products before they are sold abroad. In the process of adjusting its export commodity mix, Liaoning should work extra hard to play to its strength in the petrochemical and electrical machinery industries. That accomplished, it will substantially enhance its ability to export and earn foreign exchange.

2. Establish An Export Production System

The establishment of an export production system essentially consists of the strengthening of export special factories and bases and, with them as the basis, gradually adjusting the export commodity mix in accordance with the formula, "trade, industry, agriculture." This is basic to guaranteeing the long-term stability of the supply of export commodities and their gradual qualitative improvement, and should therefore be tackled as a strategic mission by the province. When it comes to implementation, it can start with the coastal area and work its way toward the central part step by step. Specifically, it should first focus on "flagship" exports earning at least \$1 million in foreign exchange, and use them as springboards to develop new

4. Handle Well the Relations Between Technology Import and Export

"Use Exports to Foster Imports, Use Imports to Promote Exports"
Technology import constitutes an important approach to transforming the industrial base of Liaoning. It is an urgent task in transforming Liaoning to transform existing enterprises through the import of advanced foreign technology to enable them to meet the requirements of modern products and turn out internationally competitive products. During the Seventh 5-year Plan, there will be a huge gap between the capital requirements of transforming Liaoning's enterprises and importing technology, on the one hand, and the pro-rata foreign exchange retained by the province, on the other. The only way to bridge this gap is to skillfully handle the relations between import and export, closely relate technology import to export, and adopt this policy: "Foster imports with exports; promote exports with imports." By increasing exports, we can earn more foreign exchange and import more technology. By expanding technology imports, we can, in turn, improve the conditions in which exports are produced, reverse the trend in recent years of exports overtaking imports by a wide margin, and close the trade deficit. In addition, we should exercise great vigilance in import to avoid duplication and the purchase of excessive numbers of single pieces of machinery. Moreover, we should concentrate on the import of key technology and equipment, giving priority to projects that impact the national economy significantly and to technology and equipment required in the manufacturing of goods that are competitive and popular in the world market. After a few years' effort, we should see a rapid progress in Liaoning's export.

12581

CSO: 4006/1238

FOREIGN TRADE AND INVESTMENT

SICHUAN'S EXPORTS OF ELECTRO-MECHANICAL PRODUCTS INCREASE

Chengdu SICHUAN RIBAO in Chinese 15 May 86 p 1

[Article by Wang Yongkang [3769 3057 1660] "Steady Increase in Sichuan's Exports of Electro-mechanical Products. Volume of Transactions at 1986 Spring Trade Fair Reaches More than \$10 Million"]

[Text] The volume of transactions in Sichuan's electro-mechanical products at the 1986 spring Chinese Export Commodity Trade Fair was ratifying. Volume of transactions between the Sichuan Provincial Electro-mechanical Equipment Import and Export Company and foreign traders alone amounted to more than \$10.7 million, three times more than the volume of transactions in electro-mechanical products at the 1985 spring trade fair.

To increase exports of Sichuan's electro-mechanical products, at the end of 1985 the provincial Machine Building Office convened a special conference that studied improvement of the quality of export goods, opening up of export goods markets and locating sources of goods for foreign sales. Next, the Provincial Electro-mechanical Equipment Import and Export Company several times sent technical and sales personnel abroad or to domestic "windows" on foreign trade to gain an understanding of market conditions and to take positive action in providing technical data and information for the production of export products. During the spring trade fair, this company worked together with producing enterprises to sell, hold talks and sign contracts with foreign buyers, to make matters easy for foreign traders and to increase product competitiveness. As a result, volume of transactions for quite a few electro-mechanical products steadily increased. For example, the "Sichuan Brand" 1,000 centimeter rules, the calipers, the drill bits and the hard alloy blades jointly marketed by this company and the Chengdu Measuring and Cutting Tools Plant were generally well accepted by foreign traders, and the volume of transactions increased tremendously over that of the 1985 spring trade fair. The cast and forged blanks produced by No 2 Heavy Machinery Plant and the Leshan Metallurgy Machinery Rolling Mill were regarded favorably because of their quality by traders from the United States, Australia and Hong Kong. Volume of transactions amounted to more than \$3 million. The Model CD-131 and

Model CD-122 light trucks, and the Model CD-330 dump truck produced by the Chengdu Motor Vehicle Plant was also sold at the spring trade fare, entering the international market for the first time.

9432

CSO:4006/1132

FOREIGN TRADE AND INVESTMENT

TIANJIN SUCCESSFUL IN ATTRACTING FOREIGN INVESTMENT

Tianjin TIANJIN RIBAO in Chinese 12 Jul 86 p 1

[Article by reporter Liu Rong [0491 2837]: "The Trend of Development Is Good for Chinese-Foreign Joint Ventures in Tianjin"]

[Text] Yesterday at the Tianjin Municipal Commission of Foreign Economic Relations and Trade press conference, I learned that 64 Chinese-foreign joint ventures and cooperative enterprises which have started business in Tianjin now have \$10.99 million of foreign exchange balance in the bank. These joint ventures have not only achieved balance in foreign exchange but made a surplus of \$1.44 million. The trend of development is getting better and better.

In the past few years, the overwhelming majority of Chinese-foreign joint ventures and cooperative enterprises have scored fairly good economic results. Joint ventures of industrial production, in particular, have won over both domestic and overseas consumers with warm and sincere service and top-quality products. For instance, such products as Otis elevators, "Dynasty" brand white wine, and Wella's conditioning shampoo enjoy fairly good reputation in the world. The turnover of industrial production-type joint ventures accounts for 71 percent of the total turnover of all joint ventures.

According to the statistics of the Tianjin Municipal Commission of Foreign Economic Relations and Trade, between January and June, Tianjin used \$108.36 million in direct foreign investment and signed contracts for the establishment of 19 joint ventures.

In the first half of 1986, a wide range of countries and areas invested in Tianjin. Tianjin signed 10 joint venture contracts with Hong Kong, 5 with Japan, 3 with the United States, and 1 with Singapore. Of these, industrial production projects account for 12 and non-industrial production projects account for 7. Among them, 11 joint ventures export 50 percent of their commodities and 7 export 100 percent. Comparing joint venture contracts signed in the first half of 1986 with those in the corresponding period of 1985, first, the amount of investment has increased 48 percent, and second, the number of large industrial projects and the proportion of exported products have both increased.

12302

CSO:4006/1275

BRIEFS

EARNINGS FROM CARPET EXPORTS--The Chinese Native and Animal By-products Import and Export Company exported 540,000 square meters of carpet during the first quarter of 1986, earning \$33.43 million. During the same period in 1985, export of 480,000 square meters of carpet brought foreign exchange earnings of only \$27.99 million. This means that despite the 10 percent decrease in exports in 1986, foreign exchange earnings increased 1.3 percent. Looked at in terms of the per unit export price, foreign exchange earnings for the first quarter of 1986 were \$61.90 per square meter. This was 17.5 percent more than the \$52.48 of the same period in 1985. This situation amply shows that actions taken since 1985 such as the bolstering of macroeconomic management, unified pricing, centralized dealings with foreign buyers, and a full examination by the Chinese Carpet Import and Export Society of contracts for carpets have given impetus to development of the carpet industry, producing remarkable results. [Text] (Article by Cai Shuming [4491 2579 6506]: "Increased Rate of Foreign Exchange" [190712 GUO] SHANGHAI REPORT 10 13 MAY 86 P. 7)

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SPECIAL ECONOMIC ZONE

DIFFERENT STAGES OF THE LIFE OF A WORM

Guangzhou GUANGZHOU JOURNAL OF THE CHINESE LINGUISTIC SOCIETY IN CHINA
Mar 86 pp 43-44

[Article by J. J. Gibson, 1977, 1978]: "A Study of the Value Development Stages of the 'A' Child"

[Text] At present, the question of the role of science has clarified in the existence of the state in the building up the development stages of special economic zones. Indeed, if it is of great importance to conduct an in-depth study of this issue in connection to the years of practice in the zone.

[illegible]

Second, the strategic goal of the development of the SEZs will be according to the strategic direction of the central government in the SEZs after clarifying the strategic position of the SEZs. We will formulate the strategy for the development of the SEZs, in the viewpoint of the foreign economical status of the SEZs. For instance, the strategic goal will be the growth and flexibility, etc. will be in a developmental process. The viewpoint of the nature of At the same time, the strategy will be the growth, etc. will be in stages of development. The order of stages will be reversed and the strategy will be the growth, etc. will be in stages of development.

made and conditions are created are carried out ahead of schedule, haste often will make waste; or if practical measures are confused with goals and if the future goal is used to measure the road we have taken, the appraisal often will be inaccurate and create illusions." (1) This explains that the correct understanding and scientific division of the development stages of the SEZs are of great significance to the steady progress of the SEZs and the fulfillment of existing goals.

Third, correctly understanding the nature of the development stages of the SEZs is of great significance also to China's 14 coastal open cities which are in the startup stage, especially the construction of economic development zones in these open areas. The scenario in opening China's coastal cities is not exactly the same as that in the SEZs, but since the development of coastal open cities needs to borrow the experience of the SEZ construction, the working process of the SEZ's economy is bound to have a great impact on the development of coastal open cities. Especially the economic development zones in coastal open cities should have obvious geographical boundaries and implement special policies like those in the SEZs. Therefore, how to correctly understand the nature of the stages of the SEZs is bound to have a great impact on the construction of various types of economic development areas.

Fourth, along with the economic development of the SEZs, the economics of the SEZs which conforms to the economic development of the SEZs and reflects the law of economic development in the SEZs inevitably will be established whereas the different stages and scenarios of the SEZs in the process of development inevitably will be considered as extremely important contents and subjected to historical and logical analyses. Therefore, correctly understanding and dividing the development stages of the SEZ economy is of great theoretical significance also to the establishment and development of the economics of the SEZs.

Then how on earth can we correctly understand the nature of the development stages of the SEZs? Or shall we say, how do we correctly divide the development of the SEZs into different stages? On this issue, the academic circle has conducted many valuable discussions. I think to resolve this issue once and for all we should first come to grips with the objective bases for dividing the development stages of the SEZs. I wonder if we can approach it from the following three aspects: 1) The strategic goal of the SEZ development; 2) the objective reality of the SEZs; and 3) the existence of economic and technological gaps between countries.

The division of the development stages of the SEZs first must reflect the strategic goal of the development of the SEZs. This is because stages are always related to goals. Without goals there will be no orientation for the development of stages, nor will there be objective contents and targets of individual stages; therefore, we cannot even begin to talk about the issue of the division of stages. The strategic goal of the development of China's SEZs as a whole is to establish an export-oriented economy. This demands that when we divide the development stages, we must first consider the fulfillment of the strategic goal as a set stage, otherwise, we will lose the entire meaning of the division of stages.

In the division of the development stages of the SEZs, we should also give considerations to the objective reality of the development of China's SEZs. This is because the strategic goal of the development of the SEZs cannot be achieved in one move. It is bound to be restricted by the subjective and objective conditions of all respects. For instance, the startup of the SEZs, the foundations and conditions of all fields, and the attraction and expandability of the SEZs will present different scenarios in different stages of the development of the SEZs and make the degree of the fulfillment of the strategic goal look like an ascending staircase, thereby presenting different stages. When we understand and divide the development stages of the SEZs, we must give main consideration to this objective reality.

As special economic zones with the export-oriented economy as a goal model, their nature demands that they advance toward international markets and carry out their economic activities mainly on the international economic stage. However, there are still some gaps between the economic and technological foundations of China and those of advanced countries in the world, technologically advanced countries practice technological blockade, and the training of advanced technical and managerial personnel for the SEZs also needs to go through a process. Because of this, if we want to get quick access to international markets, take part in the competition, occupy a definite position, and fulfill our set goals in an international economic environment in which market relations are extremely complicated and competition is extremely acute, we are bound to run into much resistance and many obstacles. This demands that we reflect these objective conditions when we understand and divide the development stages of the SEZs to ensure the scientific basis and feasibility of the division of stages.

Based on the above, I think the development process of the SEZs can be reasonably divided into three stages: 1) the foundation-laying stage; 2) the preliminary export-oriented stage; and 3) the advanced export-oriented stage.

The basic characteristic and requirement of the first stage, namely the foundation-laying stage, is to create an investment environment of a preliminary scale in a given area where foundation is bad or relatively backward to absorb foreign funds and import advanced technology and managerial experience. The quality of the investment environment may vary in different areas. So may the time table for the building of such an environment. Construction funds needed for creating an investment environment should come as much as possible from foreign capital. When foreign capital cannot be used effectively, domestic funds may also be used.

The basic characteristic and requirement of the second stage, namely the preliminary export-oriented stage, is that the construction and development of the SEZs must be financed mainly with foreign capital and products must be sold mainly to foreign markets. The word "mainly" here does not imply an absolutely static concept as far as quantity is concerned. It should vary in different SEZs, but it should not be lower than or equal to 50 percent. As far as quality is concerned, it is inevitable to strive for a certain degree of initiative in the practical use of foreign capital and the control of export products and continue to expand such an initiative. However, we should

not blindly emphasize the absolute initiative in this regard. As for setting the priority in the industrial structure, different SEZs should, according to their own reality, establish an industrial structure that will give full play to their own advantages. However, generally, a comprehensive SEZ should have an industrial structure that is based on industry, develops both industry and trade, combines industry, trade, and technology, and includes various other industries such as tourism, service, real estate, agriculture, animal husbandry, fishery, and finance. In respect to the form of import, the SEZs should combine the labor-intensive, industry- and technology-intensive, and knowledge-intensive industries with emphasis on the labor-intensive industry.

The basic characteristic and requirement of the third stage, namely the advanced export-oriented stage is that the construction and development of the SEZs must be financed mainly with foreign capital and products must be sold mainly to foreign markets. The word "mainly" here still does not imply an absolute static concept as far as quantity is concerned. It may vary in different SEZs but not lower than 80 percent. As far as quality is concerned, it is imperative to have an absolute initiative over the practical use of imported foreign capital and the control of export products. As for setting the priority in industrial structure, different SEZs should, according to their own reality, establish an industrial structure that will give full play to their own advantages. However, generally, a comprehensive SEZ should establish an industrial structure that is based on industry, develops both industry and trade, combines industry, trade, and technology, and includes various other industries such as tourism, service, real estate, agriculture, animal husbandry, fishery, and finance. In respect to the form of import, the SEZs should still combine labor-intensive, industry- and technology-intensive, and knowledge-intensive industries but with emphasis on the technology- and knowledge-intensive industries and with high-tech industries occupying a proper proportion of the whole economic structure.

Judged from the internal nature of the SEZ development, the division of the above three stages may actually be considered as two stages--the foundation-laying stage and the immediately following SEZ-forming stage (namely, the export-oriented economic stage) that begins to realize the strategic intention of establishing the SEZs and gives full play to the functions of the four windows and the two fans). However, due to the differences in the degree of the attraction of foreign capital and the degree of advancement in regard to imported technology and management and various other reasons, the strategic intention of establishing the SEZs and the strategic goal set according to the intention will be realized to varying degrees, thereby resulting in various levels in the forming stage of the development process of the SEZs. Hence the division of the preliminary and the advanced export-oriented economic stage. It is better to achieve the highest strategic goal of the SEZ development as soon as possible of course, but due to the restrictions of various subjective and objective conditions, it has to go through a development process and it cannot be influenced in a man's will.

In the division of the development stages of the SEZs, a view needs to be mentioned here briefly. This view holds that a readjustment and consolidation stage should be inserted in the above three stages of the development of the SEZs. In other words, there is a fourth stage, namely, the foundation-laying or the initial

stage, the readjustment and consolidation stage, the preliminary export-oriented stage, and the advanced export-oriented stage. Judged from some realities of the SEZ development, this kind of division seems to make some sense, but if examined more closely, it can be seen that it is actually an analysis that confuses the general or inevitable strategic development stages of the SEZ with certain actual conditions of the SEZs in China. Judged from the reality of the SEZ development in China, some problems that are worth paying attention to and need to be solved do exist in some aspects of certain SEZs. Or shall we say that it is indeed necessary to make some readjustments, but such readjustments should not be considered as a general or inevitable stage of the development process of the SEZs. This is because readjustment is to correct or coordinate, from the overall point of view, certain errors or imbalances cropped up in the inevitable development process of the SEZs and because readjustment is measures and methods adopted for the normal operation of the SEZs. Since it may or may not appear, they are not inevitable. If we must consider such readjustment as a stage, we can only consider it as a stage of the strategic development of a certain SEZ instead of listing it with general strategic development stages. Otherwise, readjustments that might appear in the future development of the SEZs (nobody is certain that there will not be any more readjustment problems in the future development of the SEZs) are bound to be considered as strategic development stages. Adding strategic development stages as the number of readjustments increases is obviously very unscientific. Also, if we consider readjustment and consolidation as an inevitable stage of the SEZ development, people are likely to come to the wrong conclusion through negative inference that errors and mistakes are unavoidable in regard to overall control in the development process of the SEZs.

What if we proceed from the above general outlines of the development stages of the SEZs and go one step further to make concrete analysis of the reality of the SEZ development in China? Now let us make some brief analyses using Shekou and Shenzhen as examples.

Everybody can see that China's SEZs have made great achievements after several years of startup. But, as far as development stages are concerned, all of them are still in the first stage, namely the foundation-laying stage, in spite of the differences in the starting time. This does not imply the elimination of the possibility that some relatively independent parts of individual SEZs may advance faster than others. The Shekou Industrial District of the Shenzhen SEZ is an example.

As a relatively independent special development area, the Shekou Industrial District had the earliest start among China's SEZs, 6 months earlier even than the Shenzhen SEZ. Since its official development in July 1979, Shekou, after several years of efforts, has changed from sparsely populated deserted beaches and barren hills to a rising open city of preliminary export-oriented economy. In other words, the Shekou Industrial District has successfully passed the foundation-laying stage and entered the second stage of the SEZ development, namely the preliminary export-oriented stage.

During its entire development process, the Shekou Industrial District's main source of construction funds is foreign capital. Namely, it relies mainly on

foundation-laying stage of the Shenzhen SEZ. Without industrial conditions and successful preparation of infrastructure for construction projects, nobody would come to invest and whether or not labor-intensive industries can be carried out will become a question, not to mention technology-intensive industries. Therefore, it is unrealistic to blindly talk about the various higher goals in the first stage of the SEZ development and use it to appraise the achievements of the SEZ.

When understanding and probing the issue of the development stages of the Shenzhen SEZ, an almost established view needs to be brought up for earnest discussion. That is: the Shenzhen SEZ's economy is now import-oriented and it is in the process of transferring from an import-oriented economy to an export-oriented economy. This view appears to be all right, but it does not make sense judged from the general development stages of the SEZs and from the internal demands of the development of the SEZs themselves. This is because, first, if we say the Shenzhen SEZ's economy is import-oriented, we must have such a precondition--namely, we must first admit that the Shenzhen SEZ as a whole has taken shape. If we do not have such a precondition, we cannot begin to talk about the "type" the economy belongs to. Nevertheless, as we mentioned before, the Shenzhen SEZ is still in the foundation-laying stage and has not taken shape judged from the situation as a whole. Therefore, saying Shenzhen's economy is import-oriented is not accurate. Second, if we think the development of the Shenzhen SEZ has taken shape and it belongs to the import-oriented type, we are bound to set it against the essential requirement that the SEZs must establish an export-oriented economy and thereby declare to the people that the Shenzhen SEZ has gone astray in the course of development and failed to reach the expected goal. But, the fact is not so. Not only has the Shenzhen SEZ not gone astray, but its development is very much in line with Shenzhen's reality. If we do not recognize this, we cannot call ourselves a good materialist. Third, if we think the Shenzhen SEZ has not gone astray, its economy is import-oriented and it is considered an imperative stage, in other words, if we think the SEZ needs an import-oriented economic stage after going through a foundation-laying stage and then enter the export-oriented stage, we will run counter to the strategic intention of establishing the SEZs and the universal law of the internal development of the SEZs. At the same time, the objective development of China's SEZs shows that it is not necessary to go through an import-oriented economic stage to reach the export-oriented economic stage. This explains the view that considers the Shenzhen SEZ's reality as the import-oriented economy and its derivative, the so-called "type-changing" theory, lack theoretical basis and are not convincing. The appearance of such a view, in a certain sense, is directly related to the inability to correctly understand the stage characteristic of the SEZ development.

If we say the Shenzhen SEZ's economy is not import-oriented, then how do we explain the fact that the Shenzhen SEZ has in the past few years used more domestic funds than foreign capital and sold more products to domestic markets than to foreign markets? This is because it is necessary for the foundation-laying stage. As mentioned before, we should of course use as much foreign capital as possible during the foundation-laying stage. But, if we cannot smoothly and effectively use foreign capital for all our needs, due to many reasons, to run the SEZs, we must not reject the use of domestic funds. We

can even use more domestic funds than foreign capital. Generally speaking, the construction funds of a large comprehensive SEZ like the Shenzhen SEZ, especially the construction funds of infrastructure, generally rely on China's efforts to raise funds and it is very hard to rely mainly on foreign capital. As long as we can do a good job in infrastructure and improve investment environment with our investment, we will be able to attract foreign capital. During the period from 1980 to June 1985, the Shenzhen SEZ had 4.6 billion yuan of total investment, of which, 22.5 percent were foreign capital, 15.5 percent were bank loans, 25.0 percent were raised by the financial departments and enterprises of the SEZ, and 11.5 percent were provided by the central government, ministries, provinces and integrated enterprises. During this period, about 70 percent of products were sold to domestic markets. These explain that in the course of construction, the Shenzhen SEZ indeed used more domestic funds than foreign capital. However, we must take it for an import-oriented economy just because it used more domestic funds than foreign capital during this stage. Economic activities such as the production of internal integration, domestic bank loans and the domestic sales of products can only be considered as necessities for the development and forming of the SEZ and not as marks for the development and forming of the SEZ itself. When the SEZ development reaches the forming stage, it will be export-oriented, not import-oriented. Should an export-oriented economy, however, when the construction and development of the SEZ entered the forming stage, it means that there have been some deviations in the development of the SEZ development. Yet, the objective reality of the construction of the Shenzhen SEZ is not so.

After several years of efforts, the Shenzhen SEZ has gradually established and is continuously improving a fairly efficient management system, laying a fairly solid foundation for fully utilizing the advantages of the SEZ. The emergence and existence of some problems or deviations in the SEZ is a direct orientation and were hard toward the direct goal of the SEZ comprehensive export-oriented SEZ as the people expected and the SEZ should be established in the near future.

December 1985

Footnotes:

1. Li Jusheng (1981 0948 0342): "Thoughts on the Development Strategy of the Shenzhen SEZ."
2. Xu Zhiming (1985 2535 3194): "The Situation, Prospects and General Issues of the Shenzhen Industrial District," a speech delivered at the "Economic Forum of Hong Kong, Macao, and the SEZs" in August 1985.
3. Lu Jifu (1985 0471 3127): "The General Situation and Underlying of the Construction of the Shenzhen SEZ," a speech delivered at the "Economic Forum of Hong Kong, Macao, and the SEZs" in August 1985.

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1230: 400-117

SPECIAL ECONOMIC ZONES

SHENZHEN ECONOMY SHOWS IMPROVEMENT IN VARIOUS AREAS

Hong Kong TA KUNG PAO in Chinese 3 Jun 86 p 17

[Article by Correspondent Chen Yong-ping [7115 3057 1627]: "Shenzhen Economy Has Begun To Pick Up. National Order on Restriction of Credit At Beginning of Year Slowed Growth. Zou Erkang [6760 1422 1660] Emphasizes No Direct Connection With Beginning of SEZ's Administrative Line; Predicts Improvement in All Construction Difficulties During Second Half of Year"]

[Text] The economy of the Shenzhen SEZ began to pick up in April with improvements in industry, capital construction, retail sales and financial revenues. This heralded healthy development following the readjustments of the previous period.

Shenzhen SEZ Secretary General Zou Erkang stated the foregoing in receiving the correspondent. He said that the April 1986 formal implementation of the Shenzhen SEZ administrative line marked a new development in Shenzhen's improvement of the investment climate. Though the Shenzhen SEZ will not have conditions for a completely tax-exempt system for some time to come, the administrative line already plays a role in preventing those lacking legal documentation from entering the SEZ, and regulates in a preliminary way the movement of goods and transportation vehicles into and out of the zone. In addition, all units using the zone are factoring the administrative line into their work so that once Shenzhen puts tax-exempt policies into effect, they can be effectively applied.

Zou Erkang pointed out that a look at the current situation in Shenzhen shows numerous problems being faced in its construction and development, fairly large ones being the import and export quotas problems, monetary and currency policies, and problems in how to further improve the investment climate to enable SEZ products to enter international markets.

He said that as a result of the foregoing problems, work on some capital construction project in the Shenzhen SEZ had to be slowed or temporarily halted during the last half of 1985 and the first quarter of 1986. This had brought about a decline from the same period in 1985 in the introduction of foreign capital, and some foreign-owned enterprises as well as some joint Chinese-foreign ventures experienced business difficulties. In addition, some mistaken ideas arose in foreign circles who supposed that a slump had taken

place in the building of the Shenzhen SEZ. Some people also mistakenly believed that Shenzhen's difficulties had been created by implementation of the administrative line.

Zou Erkang explained that the recent difficulties in building Shenzhen had resulted from national implementation of macro-economic controls and the chain reaction produced by a restriction of credit; they were not directly related to the SEZ's administrative line. Pertinent problems are being worked out by central government departments, and it is believed that construction difficulties will likely be improved during the last half of the year. He said that following the slide during the previous period, Shenzhen City's industry, capital construction, retail sales and financial revenues had begun to pick up in April 1986. All economic indicators had risen 11 percent over March, and volume of commodity sales had risen 4.9 percent. This change had resulted from readjustments pursued during the previous period in the Shenzhen SEZ. Following readjustments, numerous enterprises are now researching and developing marketable products, and as a result, enterprises have seen renewed vigor in production. Nevertheless, a look at the situation from January through April 1986 shows that totals for all economic indicators are still down 7.7 percent from the same period in 1985.

9432

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TRANSPORTATION

NEW PHASE IN CHINA'S HIGHWAY CONSTRUCTION

THE STRAITS (OUTLOOK) OVERSEAS EDITION

Editorial by Yi Fai [0001 1378]: "New Phase in China's Highway Construction"

Some changes have occurred in recent years as China's highway system enters a new phase in which state-owned enterprises have entered the highway building business and capital is coming in from abroad. This has never happened before.

Developments in Last 3 Years

In the last 3 years, China has built 52,000 km of new roads, increasing the total mileage to 940,000 km, for an average of 2.2 km of highway per square km of territory.

Use of highways has also increased. There are now 15,000 km of surfaced roads, most of which are asphalt, markedly increasing transport capacity. The highway completed in 1965 from Shijiazhuang to Baotou in Inner Mongolia increased the volume of coal shipped by 10 million tons a year; the highest road in China today, the Beijing-Tianjin Expressway, opened in October last year, links the port of Tianjin, the main seaport, with vehicles round the city.

The Lanzhou-Xining highway, a 190-km road built at an elevation of 1,000 meters above sea level, has been surfaced and greatly increased its resistance to wear and tear after being converted into an asphalt road; in addition, the Tianjin-Baotou Expressway, the Yichuan-Lanzhou Expressway and others are fairly well equipped with increased capacities. These are the roads which have brought the growth of primary and secondary roads to 125,000 km, or one-fifth of the total of 600,000 km nationwide.

The Sixth 5-Year Plan (1981-1985) set a goal for car and truck traffic for all administrative units, and this was fulfilled a year of time, reaching 61.42 billion km in 1980. Nationwide highway traffic reached 4.2 billion kilometers, or 6.7 percent, or an average increase of 13.5 percent.

A rural passenger transport system is rapidly being
15,000 transport routes are being developed. And in parallel
to passenger transport, there are 74,000 passenger
rural areas, and more than 100,000 and lower level
providing great convenience to rural residents.

Policies Under the New Plan

Owing to a gradual implementation of policies in the
situation of many enterprises existing in a state of
pooled in every way is developing. At the start of the
private enterprises, mainly related in the transport
scene of prosperity appears in which many enterprises
and many types of economic elements and methods
together. By the end of last year, China had a total
(including passenger and cargo) operated by private enterprises
the number of specialized vehicles owned by companies.

In recent years, a wave of mass enthusiasm has
maintenance and construction of highways. Most of them
understand what is meant by the phrase "to go
roads." For residential projects in the construction
took the initiative and citizens' funds and materials
highway; native products which for years were left to
be shipped over long distances to the coast for
return capital and goods are sold directly to the
machines. Local products in Dandong, Jilin, Heilong, and
areas organized (mainly) in transport and which have
ushering in prosperity to the residents of those parts.

Additional reasons for the mass enthusiasm developed
Plan were "horizontal" and "vertical" and the
ownership and economic relations. At present, in the
such jointly operated orders in the transport industry
container transport and other modes of transport
been progressively established. In addition, there
routes for transport goods and passengers. For example,
Anhui, Shantung, etc., container lines operated by the
nationwide shipping companies, "to go to the sea," have
of enterprises, private enterprises, specialized
rural areas. A highway network running from
Shenyang has been laid out, connecting with
northeast China. To date, the government has
2,300 specialized trucks and more than 100,000
service business of trucks and 2 million passengers
and the first 10 million kilometers.

Seventh Point: The Future

The concept of "horizontal" and "vertical" for the
beginning this year, the government has decided to

centers to complement the economic takeoff of surrounding cities in China that are now implementing reforms of their economic systems.

The plan is to construct 60,000 km of new roads to bring total road mileage to 1 million kilometers by 1990, up from the present 141,000 km; and operate 80,000 km of roads to bring total mileage of graded roads to 181,000 km, including 1,800 km of expressways and primary roads to be used specifically by cars and trucks, and 30,000 km of secondary roads. This will be an excellent start toward the future goal of building a 100,000 km network of major highways.

In the coming 5 years, the emphasis in China's road construction will be on major roads built for economic purposes, highway links to ports, energy transport routes, and key tourist attraction routes. Of these, the most important are the Beijing-Tanggu expressway, the Shenyang-Dalian primary highway, the Beijing-Shenyang secondary highway, and 37 other major roads and highways from Shanghai to Hangzhou, Shanghai to Nanjing, and other places. The congested conditions of highways used for import and export, of ports, of train stations and of other key transport lines in major cities throughout China will be alleviated upon the completion of this plan.

To achieve this plan, continue to implement the policy of "loosening the grip on transportation and letting everyone use the roads," and to encourage mass entrepreneurs and a variety of economic elements to pursue highway transport business; and in construction, continue to carry out the policy of "managed by the people, supported by the state," relying mainly on active pooling of capital at the local level and on the masses to engage in transportation and highway maintenance; for key routes included in the state plan, two-thirds of the capital will come from funds attracted at local levels, and one-third will be supplied by the state. In the general planning of construction, universality should be linked with improvement, with emphasis on improvement, and transformation should go hand in hand with new construction, with emphasis on transformation, to facilitate channeling capital into improvement and new construction of a group of primary and secondary highways. At the same time, carry the division of rail and highway shipping a step further, with highways basically absorbing passenger traffic and freight shipments within a 500 km distance, and for the convenience of shippers and passengers, energetically develop trucking of breakbulk cargo by "rural postal" parcel delivery service, and schedule buses to park overnight in rural areas.

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TRANSPORTATION

NANJING HARBOR DEVELOPMENT OUTLINED

Beijing LIACWANG [OUTLOOK] OVERSEAS EDITION in Chinese 30 Jun 86

[Article by Shan Rupeng [0830 3067 7720]: "Port of Nanjing Starts Out in Opening Up to the Outside World"]

[ext] This March, the Standing Committee of the National People's Conference made a decision about the port of Nanjing opening up to foreign vessels. The past few months, the port has started anew in opening up to the outside world. Up to May 20, the port loaded and unloaded a total nearly 270,000 tons of cargo in 40 ocean-going vessels, of which 115,000 tons were on 10 foreign vessels. There was about a dozen kinds of cargo, including ore, lumber, cement, and feed. According to statistics, for May alone, port capacity increased several tens of thousands of tons over the same period last year.

Sailing east from the port, ships can travel to many ports in Asia, Australia, and the world. Its main channel is more than 10 meters deep and between 600 and 1,100 meters wide. East of the Changjiang Bridge, 24,000 dwt ocean vessels can navigate year round; the main channel to the west of the bridge can accommodate 5,000 dwt class ocean vessels. Nanjing is the political, economic, scientific and technological and cultural center of Jiangsu Province; its petrochemical industry, electronics, instruments, machinery, building materials and other industrial departments are in a leading position nationwide. At the same time, business and trade prosper in Nanjing, and there are many places of historic interest and scenic beauty, giving it a bright future in development of international trade and tourism.

In recent years, Nanjing has strengthened transformation of the five shipping modes of rail, highway, waterway, air, and pipeline, for even better linkage in transportation. For railroads, it has three trunk lines: the Tianjin-Pukou, the Shanghai-Ningbo, and the Ningbo-Tongling (Anhui-Jiangxi); for highways, it has scores of routes which run in and out of the province such as the Ningbo-Shanghai, the Ningbo-Yangzhou, the Ningbo-Hangzhou and the Ningbo-Yanshan. For waterways, in addition to access to the north-south Grand Canal, the Yu He, a tributary to the north, gives access to Anhui, and the Qinhuai He to the south flows through Jiangning and Lishui to link up Shijiu

Hu, Jinhua and the Hu for access to Zhejiang; heading west up the Chang Jiang, direct access can be had to Wuhan and Chongqing, connecting the vast, fertile hinterland of the Chang Jiang. Nanjing is one of China's largest inland ports and best river seaports.

There has also been new developments in recent years in harbor construction at the port of Nanjing. The first phase of the reclaimed embankment deepwater berthing project, listed as a key project nationwide, was begun in September last year, and to date, three deepwater berths of 15,000-25,000 ton class have been built, of which one is an international container berth; moreover there are three buoys to which ships can be anchored, giving the port a nearly added capacity of 1.5 million tons.

To expand port capacity, and adapt to a broader cargo mix and to the technological requirements of loading and unloading, the port is now constructing a quarter of deepwater berths. Of these, six 10,000 ton class berths and seven 5,000 ton berths will be built in the second phase of the project, bringing port capacity up to 5.38 million tons.

In the past, the nearly 116,000 cubic meters of lumber imported by Nanjing every year from the United States, the Soviet Union and other countries had to be transhipped from Shanghai. After Nanjing opened up to the outside world, ocean-going vessels can discharge cargo directly at the port, not only saving costs but also creating potential for Nanjing to earn foreign exchange. Last month the People's Government of Nanjing approved the establishment by the city supply bureau of a depot on the reclaimed embankment for the transhipment of lumber. After the depot is constructed, lumber from Hubei, Anhui, Hunan and other provinces can be loaded, unloaded or transferred.

On March 10 last year, two large floating cranes unloaded cargo from the "Albatross" from Taiwan, a Panamanian-registered vessel on its maiden voyage to Nanjing. Crane operators unloaded more than 17,000 tons of cargo in a little over three days. Wang Zhengzuo [5516 2973 2683], assistant manager of the Nanjing Machinery Company, said: "Having the cargo unloaded here is faster than in Shanghai, and saves freight charges. It's a good move that satisfies both requirements." Wang Jie [3769 0267], deputy mayor of the city of Wuhan, said: "Thousands of thousands of tons of feed are exported from Wuhan every year. In the past, the feed was shipped via rail to Huangpu harbor in Guangdong, loaded onto small vessels which sailed to Hong Kong, then transferred there to larger ships. The cycle was long, and freight charges high. Now we can transfer it from Nanjing, really much more convenient."

Large amounts of goods imported by Nanjing in the past had to be received and unloaded at Shanghai, then shipped through Nantong, Zhangjiakou and other places before reaching Nanjing, which generally took two months. Now direct shipments to Nanjing take only half a month or so, enhancing efficiency by a factor of four.

Over the past few months, foreign traders have arrived in Nanjing in increasing numbers daily for tours, investigation trips, trade talks, and technical cooperation. Traders from the United States, Japan, Finland, Australia, Germany and other countries, as well as from the territories of

Hong Kong and Macao have expressed great expectations for the future of direct ocean-to-river shipments to the port of Nanjing, and indicated they wished to maintain broad, long-term contacts with the port. The port of Nanjing and Australia have agreed to build a warehouse on the reclaimed embankment to store 10,000 tons of wool. After completion of the warehouse, wool imported from Australia by cities along the southeast coast of China can have the wool transferred and distributed from Nanjing.

Those in charge of port affairs at Nanjing said that by 1990, port capacity would reach 60 million tons. In that same time frame, a specialized rail line will be built in the port for the foreign trade zone on the reclaimed embankment, and highway construction completed from the reclaimed embankment to Yanziji and Yaohuamen, merging the port, the railroad and the highway into an organic whole, to provide better service in opening up to the interior and invigorating the economy of the interior.

12888

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

ECONOMIC REFORM IN SOVIET UNION ANALYZED

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 6, 10 Jun 86 pp 64-68

[Article by Lu Nanquan [7120 0589 3123]: "The 27th Congress of the CPSU Gives Green Light for Economic Reform"]

[Text] The 27th Congress of the Communist Party of the Soviet Union [CPSU] reviewed Soviet domestic and foreign policies (particularly the former) over the past several years, exposed and criticized existing shortcomings and mistakes, and put forward a strategic mission for the nation till the end of the century and the major policies for fulfilling this mission. The aim is to turn the Soviet economy around and usher in a new era of national rejuvenation. To accomplish this historic shift, changes are bound to take place in the guiding philosophy behind an strategic decisions for socialist construction as well as a number of major related social economic policies. This article focuses on these issues for a brief analytical look.

I. Changes in Guiding Philosophy

A radical "leftist" philosophy that ignores objective historical factors and transcends stages has always been present in the Soviet Union. The central problem is how one correctly assesses the nature of the stage of Soviet social development. In his political report to the 27th Congress, Gorbachev criticized as unrealistic wishful thinking the demand in the CPSU's 1961 platform that the nation achieve communism within 20 years. He also attacked the notion widespread in the Brezhnev era that the Soviet Union had achieved mature socialism. He pointed out that in the past the definition of mature socialism often misled people into "simply affirming results and skirting such urgent issues as economic intensification, increasing labor productivity, increasing supplies for the people, and overcoming negativism, which consequently did not get the attention they deserved." This overestimate of the maturity of Soviet society led to a string of misguided social and economic policies, including the preoccupation with size and public ownership and the partiality toward egalitarianism in distribution matters. In light of the present stage in Soviet economic and social development and their numerous problems attendant, as well as external and internal factors constraining social development, Gorbachev put forward this guiding principle for the construction of socialism in the Soviet Union in the days ahead: "perfect socialism."

Changes in the guiding philosophy demand that changes occur in theory and ideological understanding as well. Gorbachev says, "We will not allow theories we followed in the past to degenerate into rigid formulas and panaceas. We must update antiquated ideas, work style, and methods to adapt them to changing circumstances." To implement the guiding principle of "perfecting socialism," it is highly likely that the Soviet Union will heavily criticize the leftist ideology and policies of the Brezhnev era in the next couple of years.

II. Changes in Strategic Policy

For years the economic development strategy of the Soviet Union has been to shift to the intensive mode of operations. This policy was proposed by Brezhnev as early as 1967. In 1971, the 24th Congress of the CPSU formally decided that intensification should be the basic line of national economic development. The 25th Congress in 1976 also emphasized that to bring about the transition to the intensive mode of operations constituted the heart of the present Soviet economic strategy. The 26th Congress explicitly demanded that the shift toward intensification in the Soviet economy be completed within the 1980's. Since the late 1960's, Soviet leaders have throughout argued that the economic development in the future, both vertical and horizontal, will depend on the extent to which the strategy of intensification is realized.

In several speeches after he took office, Gorbachev repeatedly criticized the slow progress and limited results of economic intensification. The Soviet economy, "to a large extent, is a wasteful economy." He pointed out that if the Soviet Union continues to follow the extensive route to economic growth, it must increase 10 to 15 percent the amount of fuels and raw materials extracted for every 5-year plan if it is to reach the planned economic growth rate. Similarly, capital investments must go up 30-40 percent, and labor force, 8 million to 10 million people. Clearly such increases are basically impossible in the Soviet Union in the future. Gorbachev repeatedly stressed the issue of accelerating Soviet economic development even before the 27th Congress. He first made the point at the April plenary session (1985) of the Central Committee of the CPSU and later elaborated it as follows in his report to the scientific and technical progress conference on 11 June 1985, "The call by the Central Committee for accelerated economic development includes not only a faster economic growth rate but also new qualitative changes, adjustments in the production structure, a shift toward intensive operations, progress in the direction of effective management, and the solution of social problems." We can see that even before the 27th Congress, Gorbachev had clear ideas about speeding up social economic development, but they mostly emerged in the form of a major national mission or economic development blueprint. It was not until the 27th Congress that the Soviet Union explicitly decided to make "accelerating national social development a strategic policy."

As defined by Gorbachev in his political report, "radical strategy" generally includes the following three components: 1) raise the rate of economic growth; 2) intensify production on the basis of scientific progress, structural economic adjustments, and better management so as to fulfill the goal of

improving economic productivity; and 3) carry out positive social policies, establish the socialist principle of justice, improve social relations, modernize the methods of operations of political machinery and ideological organizations, strengthen socialist democracy, and eliminate inertia, stagnation, and conservatism, that is, get rid of everything blocking social progress.

"Radical strategy" differs from the past strategic policy of "intensification." It has these five characteristics. First, the focus of the "radical strategy" is on speed. Soviet projections call for the national income to increase from 3.1 percent in the 11th 5-Year Plan to 5 percent by the end of the century. The main economic objective of the strategy is to double the national income within the next 15 years. Second, the magnitude and speed of the acceleration will surpass anything in the past. It must accomplish in the next 15 years all that the Soviet regime achieved in the 68 years it has been in power. Third, the Soviet Union does not want economic growth of the extensive, purely quantitative variety, but one which includes qualitative changes and intensification. In a theoretical article on the achievement of the "radical strategy" on 21 March, PRAVDA said, "Accelerated economic growth will take place on the basis of all-round intensification." In essence, all-round intensification means the fast production of an abundance of quality products economically. Intensification is the basis of economic acceleration. Here all-round intensification is put forward as a means of achieving the "radical strategy." Fourth, the radical strategy is all-embracing, including changes in social policy and social relations. Failure to implement significant reforms in these areas may allow all manner of inertia and negative factors to continue to impede social economic development, precluding the realization of the "radical strategy."

There are deep-seated reasons for the changes proposed by the 27th Congress of the CPSU. Gorbachev put it this way in his political report, "The decision by the April (1985) plenary session to accelerate the nation's economic social development embodies the party's profound realization of the brand-new situation at home and on the world stage and its responsibility for the fatherland's destiny. It demonstrates its consciousness of and determination to pursue reform which is maturing." The actual reasons for the change in strategy are these. Domestically, the Brezhnev era failed to solve the problems of economic expansion or to improve efficiency and quality, resulting in a series of economic difficulties. If the growth rate does not increase (not less than 4 percent, according to Gorbachev,) the Soviet Union will not be able to achieve a host of social economic tasks as scheduled. Internationally, because of continuous decline in the growth rate of the Soviet economy, its gap with the U.S. may actually widen, not narrow, in the foreseeable future. It may even be overtaken by Japan by 1990. In short, the Soviet Union is in a very grim situation today; at stake is a key issue: What will the Soviet Union be like when it enters the 21st century? As Gorbachev said, whether or not the Soviet economy can be turned around is a crucial question that has a bearing on the nation's "historical destiny" its "position in the contemporary world."

We believe the radical strategy proposed by the 27th Congress of the CPSU is an issue well worth examining. It has profound significance for grasping Soviet domestic and foreign policies in the future.

The major clue to achieving the "radical strategy" and reversing the unfavorable trend in the current Soviet economy lies in accelerating scientific and technical progress and fundamentally reforming the present economic system.

III. Urgency of Accelerating Scientific and Technical Progress and Measures

Like other nations, the Soviet Union faces the challenge of a new global high tech revolution. It is estimated that in science the Soviet Union is 15 to 20 years behind developed nations in the West. Confronting it today is an urgent issue: make full use of scientific and technical achievements, tap potential, catch up from behind, and strive to narrow the technical gap in the near future, and, on that basis, accelerate economic development. But if the gap further widens due to institutional obstacles and failures in social and economic policies, the Soviet Union will no longer remain the No 2 economic power. The 27th Congress of the CPSU considers the progress in science and technology the major tool of accelerating social and economic development. The Soviet Union will take a string of measures in this area in the future:

(1) Accelerate the development of new industries. The Soviet policy here is to step up the production of advanced, highly efficient means of labor and subjects of labor to ensure faster growth in such sectors as microelectronics, automation, new processes, robotics, polymerizing materials, bioengineering, and so on.

(2) Adjust the industrial structure. With the new high technology revolution in full swing, the Soviet Union has become more and more acutely aware that its traditional industrial structure dominated by heavy industry is ill suited to the demands of the new technological revolution. Gorbachev time and again mentioned that the industrial structure developed in the past has remained unchanged for so long that it has largely limited qualitative changes in science and technology. In the future, the Soviet industrial structure will be changed in the following two ways. First, presently dominated by traditional industries (heavy and chemical), it will be diversified to accommodate new as well as old industries. To bring about this change, there must be a push for new industries based on high technology, coupled with an effort to transform traditional industries through new technology and equipment. Second, as far as the product mix is concerned, there should be a shift from resource-intensive products to knowledge- and technology-intensive ones. Specifically it must accelerate the development of the machinery industry, upgrading it technically without delay so that old products can be replaced by new and good quality ones. At the same time, it should devote major efforts to developing knowledge- and technology-intensive new products. During the 12th 5-Year Plan, the output of computing technology equipment will increase 130 percent, while the number of industrial robots will triple.

(3) Modernize production technology on a large scale. This is vital to the Soviet Union. The nation makes numerous scientific and technical inventions and innovations each year, but few are actually applied in production. Hence

the use of improvements in production technology for many years. It has been suggested that transforming old technology and old equipment alone can increase labor productivity by only 5 to 10 percent, while the use of new technology and equipment can raise it by 35 to 40 percent.

Adjusting the investment structure. To implement the measures in the 3 areas above, the Soviet Union must adjust the investment structure. Among the most serious problems are that, first, the bulk of capital is still earmarked for new construction, and, second, the depreciation rate is too low and equipment replacement too slow so that a large quantity of obsolete equipment constantly requires major repairs. For example, at certain times as much as 40 percent of the machine tools in the nation are in the repair shops for updating. Because of the exclusive emphasis on new construction and the slow pace of equipment replacement, the ratio of funds to output value has dropped and the ratio of funds to equipment has gone up. In 1958, the addition of fixed funds to the production fund boosted national income by 52 kopeks. By 1970, this gain in national income has dropped to 16 kopeks. With this situation in mind, Gorbachev pointed out that the share of investments in reconstruction should be increased to at least one half of total investments, up from the present one third, in the next several years. He also demanded that they begin taking stock of equipment in factories immediately and draw up a plan for the transformation of obsolete equipment, every sector. To boost the elimination rate of obsolete equipment, the proportion of obsolete fixed assets which should be scrapped should be doubled. Gorbachev also pointed out that technical refitting should be given place in sectors and enterprises where the use of new technology will have a large impact on efficiency. He demanded that the growth rate of the machine manufacturing sector be speeded up by 50 to 100 percent during the next 5 years. As for the investment policy, what limited funds there are must not be "divided and used" in accordance with the principle that "one must do one thing." Nikolay Ryzhkov also stressed that existing funds must be concentrated in areas critical to scientific and technical progress.

Integrating research and production. In the early 1970's, the Soviet Union began establishing research and production joint companies in an attempt to end the fragmentation of scientific research and design units, on the one hand, and the production units, on the other. Such companies now number about 450. They are supposed to be concerned with large-scale research, with a research institute in charge of the overall process from scientific research to production. These companies, however, often lack the necessary testing bases for new technology. Gorbachev has suggested that to solve the problems in integrating research and production, many more research institutions and design units should join the ranks of production joint companies and enterprises to beef up the technical foundations of factories. This will be a boost to the work of research and production joint companies, turning them into a strong base for scientific and technical progress. The Soviet Union also plans to establish an integrated scientific and technical testing center under the Soviet Academy of Sciences. In scientific research, the Soviet Union has continued to give priority to basic science. Institutes under the Academy of Sciences have been asked to expand or reorient themselves immediately to research with a technical purpose. Scientific research

institutes in various sectors should devote themselves to the problems arising from the separation between research and production. It should be the aim of their research projects to garner significant economic achievements.

(6) Increase material incentives for scientific and technical personnel. Gorbachev has proposed that attitudes toward scientific and technical personnel be fundamentally changed. First, practical steps should be taken to enhance social understanding of the important functions that scientific and technical personnel perform. Second, because of the importance of science and technology, there is a need to train scientific and technical personnel systematically and provide them with opportunities to gain professional knowledge promptly. Third, increase the status of scientific and technical personnel. The Soviet Union has started to do this by increasing the wages of scientific, design, and technical workers. The leaders of enterprises and organizations are authorized to award bonuses to designers and technicians who have made contributions of importance or who have completed a complex task effectively.

Even more important than these measures is reforming the economic system fundamentally. The present system is a major barrier to technical progress. Scientific and technical progress is hindered by the system.

IV. Overhauling the Economic System

(1) It is imperative that the economic system be reformed. This was one of the key issues discussed at the 27th Congress. Gorbachev pointed out explicitly, "The present Soviet situation is such that it cannot limit itself to partial improvements but must go in for fundamental reforms." A conclusion was reached after reviewing 18 years of reform in the Brezhnev era. There were several problems about reforms. First, they were conservative. The old system was not reformed. In 1965, the word "reform" was used in connection with the "new economic system." After the 24th Congress, the word "reform" was dropped and replaced by "improvements." Second, the reformers lacked perseverance, retreating in the face of resistance and difficulties. Reforms were not implemented and reform did not really get off the ground. Third, there was no comprehensive reform program. For one thing, the reforms themselves lacked a coherent pattern. Second, there was no way to coordinate economic reforms, on the one hand, and changes in the political system, social policy, and social relations, on the other, so that they could proceed simultaneously. In his political report, Gorbachev criticized the mistaken viewpoint popular for many years in the Brezhnev era. It was that under the present Soviet social conditions, production would automatically adapt to the development of productive forces. It required continuous effort to improve the former. In addition, he noted that the current Soviet economic system took shape at a time when the scope of operations was extensive. "Over time it has become outdated and is incompatible with the development of productive forces. The Soviet Union has paid a high price for the failure of the reforms in the Brezhnev era. The failure was anticipated. From the 1970's to the early 80's, the economic system was in a state of stagnation."

stagnated, with agricultural output declining for 7 successive years, which caused immense difficulties for the development of the entire economy. Scientific and technical progress was sluggish, with worsening effects on economic growth. Because of inadequate market supplies, material incentives designed to boost worker initiative proved to be less and less effective. The Soviet Union lost the edge it had over the U.S. in economic growth rate. As a result, its economic gap with that country had not been narrowed since 1975.

At the same time, Gorbachev faces three other formidable challenges: a new round of arms race with the U.S., the centerpiece of which is the "Star Wars" program, the global high tech revolution, and economic reform in China and some Eastern European nations. China's achievements in economic reform, in particular, have attracted the attention of nations around the world. It is against this backdrop that the 27th Congress of the CPSU put forward the strategic policy of radical social and economic development. The achievement of this goal mainly depends on production intensification on the basis of faster scientific and technical progress, both of which, in turn, ultimately depend on whether or not the present economic system is overhauled. This is why the 27th Party Congress sounded the clarion call for basic economic reform.

(2) The main direction of reform. Gorbachev's political report presents only a crude outline for future reform. Reform will proceed along the following lines:

1. Reform will revolve around the adjustment of relations between the state and enterprises, primarily by giving further autonomy to the latter so that their power, responsibility and interests are integrated organically. The general idea is this: On the basis of a broadened role for the centralized guided economy, petty interference by central economic agencies in the business activities of grassroots enterprises will no longer be allowed. In this connection, both Gorbachev and Ryzhkov have gone out of their way to stress the reorganization of the State Planning Commission, arguing that it is a matter that will significantly affect the outcome of the current Soviet effort to adjust the economic machinery. Henceforth the State Planning Commission is to play an advisory role, its main function being to work out such vital issues as growth rate, proportion, balance, and investment structure policy, among others. Plans will be made for the establishment of a new inter-sector comprehensive leading organization. A large part of managerial functions will be handed over to enterprises themselves. A system of classified management will be introduced, separating products into different levels by their importance. Step by step enterprises will make the transition to full economic accounting, assume responsibility for their balance sheets, and raise capital on their own. The earnings of enterprises as a whole and individual workers will be determined by their work efficiency and directly linked to the balance sheets of enterprises. The economic quota system will be extensively popularized so that enterprises get an idea ahead of time about the various conditions prevailing in the plan period and be able to fully exploit potential, and, on that basis, come up with the capital necessary for their expanded reproduction and technical modernization.

2. In agriculture, the collective contracting system will be continued and the family contracting system expanded. Already many places in the nation are

contracting with families to work vegetable plots, melon fields, vineyards and feedlots. Also being popularized is the practice whereby the state retains ownership of livestock while allowing private individuals to raise them. In some areas, experiments are under way in which families are being contracted to run dairy farms. Apparently the trend toward family contracting will intensify in the future. In addition, Lenin's idea on grain tax will be applied. This is how it will work. Villages and farms will be allowed to dispose of on their own the above-quota portion of their output; they can sell it to the state or in the village market. From 1987, villages and farms will also be permitted to market locally 30 percent of the fruits and vegetables in the plan.

3. Make greater use of the commodity monetary relations and steer the economy with economic tools. First, on the theoretical level, an effort will be made to overcome the longstanding prejudice against commodity monetary relations. Second, the price system must be reformed to make it more flexible. In setting prices, not only the costs of a product, but also its performance, quality, and effectiveness as well as supply-demand relations must be taken into account. Third, turning to the financial and credit systems, Gorbachev emphasized that from now on the practice of using the earnings of profitable enterprises, sectors, and regions to subsidize their more backward counterparts will not be allowed. Such a practice undercuts the economic accounting system and weakens credit as an economic instrument. Fourth, as far as the supply of goods and materials is concerned, the nation must foster direct links between production units and users. That is, they may establish long-term economic relations on a contractual basis so that supply and demand are related to each other. Second, the wholesale of means of production must be developed.

4. Reform economic management organizations and agencies. The basic thrust is to strengthen economic ties between sectors, develop all kinds of horizontal linkages, and streamline administration. To begin with, the multitude of specialized ministries will be consolidated into a number of large integrated groups, each made up of related ministries. Second, the existing three-tier management system, comprising ministries, industrial joint companies, and production joint companies, will be streamlined into a two-tier management structure to consist of the two levels of ministries and production joint companies, while the intermediate level--industrial joint companies--will be eliminated. Furthermore, the Soviet Union today also emphasizes the need to properly combine management by sector with management by locality.

5. Stress reforms in social policy and social relations. In this regard, the 27th Party Congress emphasized the need for political and ideological agencies to change their work style and methods and overcome conservatism and all forms of inertia. In addition, it went out of its way to call for socialist democracy and autonomy in social and economic management in order to stimulate public initiative and enthusiasm.

It is conceivable that future reform in the Soviet Union will make greater progress than the "ameliorative" and "improving" variety of reform during the Brezhnev years. Before 1990, however, the Soviet Union will remain in a preparatory stage getting ready for the "radical strategy." During this stage, the restructuring of the economic system will continue with reforms and experiments begun in 1984, accompanied by efforts to improve, strengthen, and upgrade them based on the policy proposed by the 27th Party Congress.

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

POLAND BEGINS NEW PHASE OF SOCIALIST ECONOMIC DEVELOPMENT

Beijing LIAOWANG in Chinese 14 Jul 86 p 7

[Article by special correspondent Wen Youren [2429 2589 0088]: "Poland Begins Phase of Hastening Socialist Economic Development"]

[Text] The 10th Congress of the Polish United Workers' Party was held from 29 June to 3 July in Warsaw. This congress adopted the first party constitution in the history of the Polish United Workers' Party, decided on the strategic goals of national development for the beginning of the 21st Century, ways to achieve such goals, and the principles of socialist economic development for the next 5 years.

The Ninth Congress of the Polish United Workers' Party in 1981 was held at a time when Poland had the worst socialist economic crisis since the war. After over 4 years of work, Poland's economic situation has improved markedly and its political situation is becoming more stabilized. The 10th congress marked the ending of the phase of restoration and the beginning of the phase of hastening socialist economic development. In his report to the 10th congress, Jaruzelski, the first Secretary of the Central Committee of the Polish Communist Party, said that from now on "the most important national task will be to accelerate the process of development, make up the lost time, and reduce the gap between us and advanced countries in science, technology, and economy" and for this reason "we must raise economic efficiency in a fundamental manner."

Jaruzelski emphasized that "efficiency is the factor that determines the future of the nation" and that to Poland, efficiency meant "economic life or death."

The various measures of the second phase of economic reform to begin after the 10th congress are focused on increasing efficiency. Messner, member of the Central Political Bureau of the Polish Communist Party and premier, pointed out that in this phase "the basic orientation is to fully mobilize all mechanisms designed to achieve high efficiency." Judged from the documents, reports, and speeches of the congress and newspaper commentaries published before and after the congress, the second phase of Poland's economic reform will carry out the following tasks:

Reform planning. In future, while maintaining the role of central plans in setting the strategic goals of socialist economic development, determining

growth rate and ratio, and balancing basic resources, Poland will increase enterprises' autonomy and responsibility for production results. Enterprises will get more pressure from consumers and markets in regard to product quality, production cost, and technology. The distribution system of raw materials and machinery will be gradually limited and eventually abolished. The range in which users and supply units are allowed to sign contracts will be gradually broadened.

Implement the "principle of socialist social justice." In his speech, Jaruzelski changed the habitual usage of "to each according to his work" "to each according to his labor results." The purpose in doing so is "to differentiate workers' income according to labor contributions and to permit enterprises' ability to development according to results," and to "establish a close link between wages and production results."

A stricter system will be implemented in supplying funds to enterprises to help them increase profit rate. "Efficiency should become the basic yardstick for making decisions on investment."

Poland will readjust wage system, adopt rational labor evaluation methods, and abolish different standards and evaluation methods currently existing in the field of wages. In the meantime, Poland will implement the "system of levying taxes on above-standard labor remuneration."

Expand plant directors' authority and promote the system of production teams. Plant directors should become major promoters and organizers in the development of enterprises and the course of achieving high efficiency. They should be allowed to "take reasonable risks."

Production teams, also called companion groups, are voluntarily organized by enterprise workers. A team can sign production tasks and remuneration contracts with enterprise leaders. After adopting this form of labor organization, labor productivity and economic results can improve markedly.

Carry out general inspection of organizational structure and work posts. On the one hand, Poland lacks manpower and has 300,000 jobs waiting to be filled; on the other, Poland has a situation of labor waste including the overlapping of organizations, redundant labor, misuse of talents, overabundance of administrative personnel, and insufficient use of work hours. The 10th Congress demanded that general inspection of organizational structure and work posts be carried out nationwide in both productive and non-productive departments and from central to local management organs in an effort to change the structure and make rational arrangement for employment so as to increase management efficiency and promote economic reform.

Readjust price system and gradually reduce subsidies. A serious problem of Poland's economy is the wide gap between the prices and value of important commodities and the excess of price subsidies. In 1985, state subsidies for various products and services amounted to 1,500 billion zlotys, tantamount to over a third of state budget spending. As a result, inflation becomes difficult to control and prices do not reflect the relation between supply and demand in the market and the situation in production, and development of

production cannot be spurred according to economic laws. Considering that price is an extremely sensitive issue, Poland will seek gradual solutions instead of adopting the measure of one-time substantial price increase. With regard to the price reform of some items, extensive "social consultations" will be carried out in advance.

The 10th Congress emphasized that speeding up scientific and technological progress is one of the major levers for increasing efficiency. Scientific and technological development is focused on the fields of microelectronics, information, comprehensive automation, new materials development, biological engineering, and atomic energy.

In addition, the congress also pointed out the need to promote enterprise integration and establish inter-department groups and a certain fixed relationship between production units and scientific research or commercial units, banking groups, stock companies, cooperative and integrated enterprises, and concerns. At the same time, small and medium-sized enterprises will be developed. Individual peasant households excelling in management should be encouraged to expand the acreage of farmland to help increase agricultural labor productivity.

The 10th Congress also demanded that economic structure be reorganized and the production of export goods be expanded so as to provide more foreign exchange for the payment of foreign debts and the imports of necessary technical equipment and raw materials.

Leaders of the Polish United Workers' party pointed out that these reforms can also be a complicated process during which social ideology and the economic thought of the masses go through profound, essential changes. Socialist democracy will be broadened and social consultations will be developed to gain extensive social support.

While talking about economic reform measures, Messner said: "In the beginning, certain measures will not increase the prestige of the party, might be misunderstood and cause tension. But later they will yield positive results, promote the balance of the national economy, and enable the categories of currency and market and various economic mechanisms to function properly."

Jaruzelski said: "Our road will be difficult in the future," but it is certain that the decisions of the 10th Congress will be carried out and its goals achieved.

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